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THE ECONOMICS OF INTERNATIONAL TRADE

Canada is one of the great trading nations of the world. Throughout the day a Canadian is constantly using goods brought from many lands. His suit may be made of cloth made in England from Australian wool; his shirt is probably made from cotton grown in the United States of America; his breakfast may include oranges from the United States, coffee from Brazil or tea from Ceylon, and pepper from Cambodia or Indonesia to season his eggs. After driving to work in a car or bus containing materials from several nations, he may help to produce goods which will be shipped to other countries. Without trade with other nations many Canadians would be working at different jobs, while all Canadians would have to do without or find substitutes for many goods which they are accustomed to use.

International trade is an extension across national borders of the specialization and division of labor which are such important aspects of modern economic life. There are special reasons, however, why we distinguish between domestic and international trade. In the first place, in international commercial transactions the problem of monetary conversion arises: the producer of cloth in the United Kingdom wishes to be paid in his local currency—British pounds. A Canadian importer of English cloth must exchange his Canadian dollars for British pounds to pay for his purchases. If he were buying textiles from a firm in Quebec, this problem of monetary conversion would not arise: payment would be made in Canadian dollars. Importing really involves two transactions: the purchase of the good, and the purchase of the money of the exporting country to pay for the good. As we shall discover, the value of foreign money in terms of Canadian dollars may vary from day to day although normally it will not vary greatly.

In the second place, special restrictions on international trade are often imposed by government. An importer may have to pay a tariff on imports, a tax to his government, in the case of a specific tariff, based on a physical measure of the import, e.g. a yard, pound or ton; in the case of an ad valorem tariff, levied on the value of the goods imported. These tariffs may be so high that no goods would be imported. Quantitative restrictions may also be imposed. At the request of the American government the Canadian government agreed to limit the amount of oats shipped to the United States. This is, in effect, an import quota, which restricts the imports of a good permitted to enter a country in a certain period of time. Even if no tariffs or quotas are imposed, custom declarations and inspection may restrict the international flow of goods.

Finally, the obstacles to the free movement of goods among nations imposed by government are accompanied by obstacles to free movement of the means of production. Labor or capital do not readily cross national boundaries. Language, laws, customs, and lack of knowledge of opportunities in foreign countries may prevent workmen from moving from a low to a high wage area. Similarly investors will prefer to accept a smaller return on investment at home than they could receive abroad. Wages and interest rates will not vary so greatly within a country as do wages and interest rates in different parts of the world.

National Differences in Economic Resources

This immobility of resources is the foundation of the gains from foreign trade. Despite man's efforts in building dykes and dams to recover land or divert rivers, or even in seeding clouds to induce rain, natural resources are almost completely immobile, and foreign trade may be based on the possession of a particular resource. The location in Canada of the major portion of the known reserves of nickel explains why over eighty per cent of the world's nickel is produced in this country. Climate, soils, minerals, forests, and the accessibility of resources will tend to impose a pattern of production and trade upon a region or nation. But apart from this man in his development has added to these national differences. It may be simply a matter of developed skill, as in the case of Swiss watchmakers; or of the ability to save and accumulate capital, proverbially a characteristic of the Scots, but which was an important factor in the economic development of New England and the United States. Birth and death rates, and immigration and emigration, have brought great differences in the population densities of nations. In modern nations the factors of production—labor, capital, and land (natural resources)—are combined in quite different proportions.

When a country possesses a comparatively large supply of one factor of production the price of that factor will be low. Wages are low in Asia which is densely populated and has not accumulated a large supply of capital; rents of land are low in countries such as Argentina, Australia, and Canada, which have large areas as compared to their population; interest is low in the United States which possesses large quantities of capital. This means that a country with a large supply of a factor of production will find it cheaper to produce a good which requires a large amount of that factor in its production. This will lead a country to specialize in the production of those goods for which its supply of factors is best suited. This specialization is based on the principle of comparative costs.

The Principle of Comparative Costs

To illustrate this principle let us assume that two countries were producing food and clothing for their own consumption. If the first country had a large supply of land, food would be relatively cheap and clothing expensive: perhaps only three units of clothing would be given for ten of food. If the second country had a large supply of labor, clothing, requiring more labor in its production, would be relatively cheap: here six units of clothing would be given for ten of food. As there is a difference in comparative costs of producing these goods in the two countries, it would be advantageous for them to specialize and trade. If the first country received more than three units of clothing for ten of food; and the second received more than ten units of food for six of clothing, they would both gain. Suppose an exchange of four units of clothing for ten of food were arranged. Then the first country, by giving up ten units of food, would receive one more unit of clothing than it could produce domestically. Similarly the second, by exchanging four units of clothing, would receive $3\frac{1}{3}$ ($10 - 4\frac{2}{3}$ of 10) extra units of food. Specialization has led

to increased production, and such specialization and trade will benefit both countries as long as more than three and less than six units of clothing are exchanged for ten units of food.

The terms at which trade would take place, within the limits determined by the comparative costs of production of the two countries, would depend upon the demand for food and clothing. For example, if the second country wanted more food, to induce the first to trade, it might have to offer five units of clothing for ten of food. In this case the first country would gain two units of clothing by the exchange; the second country would still gain, however, as it would receive ten units of food while by home production it would receive only $8\frac{1}{2}$ units ($5/6$ of 10).

In the analysis of the principle of comparative costs no comparison of the efficiencies of production of the two countries has been made. It is the differences of the comparative costs which is significant. A country might be more efficient than another country in the production of all goods. It would still find it advantageous to specialize in the production of those goods in which its relative efficiency is greatest. It is simply a matter of making the best use of the ability to produce: a contractor may be a better carpenter than those he hires, but he should still specialize in management, in which his comparative advantage is greater.

As a rule, private individuals and firms, and not countries as a whole, carry on production and trade. They, of course, do not barter goods or calculate comparative advantages, but decide what to produce according to the prices in the market. They hire or buy the means of production and sell their products; they are concerned with money costs and selling prices. If they produce a good to which their factors are not adapted, however, they will find that the world price of the output is too low to cover their costs of production. They will suffer losses, and such losses will result either in failure, or in a shift to production for which their factors of production are better suited. The market forces conformity to the principle of comparative costs.

The cost of transportation has been ignored in the examination of the reasons for trade. This does not in any way conflict with the analysis, however, as transportation is production, and a country must be able to produce and deliver to market before it can be said to have a comparative advantage in the production of a good. The costs of transportation will tend to limit trade, and, in the case of bulky or perishable goods, may confine such trade to border areas. Conversely, development of the facilities for handling and transporting goods, and caring for goods in transit, will tend to expand trade. In North America, with its vast area, settlement and economic development depended, to a very large extent, upon the growth of efficient transportation systems.

Reasons for Obstacles to Trade

As gains from trade, resulting from a more efficient use of resources, are very apparent, the reasons why most nations impose obstacles, such as tariffs, to the flow of such trade must be explained. One of the reasons is found in the distribution of the gains from trade. Lower prices and a large supply of imported goods benefit consumers and these include the whole population. The gains from trade are

so diffused throughout the population that individuals, as consumers, do not recognize the benefits of trade. Moreover, consumers as such are not well organized to exert political pressure to countervail the pressure of groups which may benefit from an obstacle to trade. Such are producers of import competing goods who may benefit from a tariff and who are often organized to exert political pressure. For example, if a specific tariff, i.e. one based upon a physical unit of measurement of a good—a pound, ton and gallon, etc., is levied on a good the domestic producers may sell their output at the world price plus the amount of the tariff. This may be of considerable benefit to the people engaged in that industry, and will lead them to exert pressure on government to impose or retain a tariff which is such an apparent advantage to them. Abram Hewitt, a great American steel master, records how the price of steel rails in the United States was kept at \$27 a ton above the world price when a tariff of \$28 a ton was imposed. This price was effective in restricting imports, and brought great gains to the domestic producers of steel. These gains, of course, were made at the expense of the consumers of steel.

Producers of export goods may also lose from restrictions on trade. If nations are unable to sell their products abroad, they will not be able to import. In the long run, exports pay for imports. As the connection between markets abroad and tariff policies at home is indirect, however, producers of export goods have not always recognized the effects on their sales of their countries' tariff policies. In any case, producers of exports have not always been well organized and effective in influencing tariff policies. The effectiveness of the groups which desire protection in influencing government policies results from the immediacy and obviousness of their gains and the nature of the policies they espouse—tariffs on a specific good or class of goods, as opposed to the obscurity of the gains to consumers and producers of exports, and the very general nature of the policies they desire: free or freer trade.

The advocates of protection do not lack arguments. One argument for protection of home industry links the development of an industry or the whole economy of a country with its trade policy. They claim that, in its early stages, an industry, although well suited to a country, may not be able to compete with the more advanced industry of another country. If, however, it were given protection, e.g. by tariffs, it would develop and eventually be able to compete in world markets. This argument is sometimes extended to industry in general: when applied to a single industry it is called the infant industry argument; when applied to the whole economy, the young economy argument. Its advocates admit the losses which will result in the period of development, but claim they will be offset by gains in the future. Logically, this argument is sound; in practice, it has been very difficult to select industries which will become efficient, and industries developed under protection have tended to try to retain that protection. As one man expressed it: they expect the consumer to rock the cradle though they be six feet tall and wear size eleven boots.

Some goods are necessary for defence purposes, and a country may wish to maintain an industry to produce such goods within its own borders. Although the watch and optical industries of this continent

cannot compete with those of other countries, their skills and equipment would be of great value in producing instruments in the event of war. Some restriction on imports will result, if a defence industry is desired, and the government must make a decision according to its plans for defence.

Imports are sometimes restricted in the hope that substitutes will be produced at home and this new production will increase employment. In practice, when tariffs have been imposed in periods of unemployment, other countries have imposed tariffs in retaliation and exports have declined. Gains in one sector of the economy have been offset by losses in another, and the gains from international specialization are lost. Better means of combatting unemployment exist.

Tariffs will also produce revenue for the government if they are not so high as to exclude imports entirely. This was formerly an important source of revenue but it has declined in importance with the expansion of income taxation.

Protection against goods produced by low-wage labor is commonly advocated. Low wages, however, are an indication of low labor efficiency which may result from lack of skill, knowledge or health, or from the lack of land and capital to co-operate in production. Labor receiving high wages may be "cheap" labor when its efficiency and output are taken into consideration. Admittedly a country in which wages are high cannot produce economically those goods requiring large quantities of unskilled labor in their production. It should not attempt to do so, for it can obtain such goods by trading. A surgeon wouldn't attempt to dig the cellar if he were having a new house built.

Of importance to Canada at the present time is the use of restrictions on imports to maintain a domestic price program. The government of a country may undertake to "support" the prices of certain domestic products above the world price. Such support will involve government purchase of any of these goods which cannot be sold at those prices on the market. If imports were allowed to enter freely, the government would be forced to buy the domestic production while imports would supply the needs of consumers at the lower world prices. The farm program of the United States includes such supports, and the government has found it necessary to restrict imports. Limitations on the exports of oats from Canada to the United States have been arranged by the two governments. In effect, this has taken the form of an import quota: a limited quantity of a good which is permitted to enter a country in a period of time. Although such a quota, as compared to a tariff, provides no revenue to government, it is surer in its effect. Some years ago Canadian potatoes were being shipped and sold in the United States for domestic consumption in spite of payment of a tariff, while the American government was buying domestically produced potatoes, under its support program, and destroying them.

Tariff Policies of the Canadian Government

The trading relationships, and the commercial policies of Canada, England, and the United States have greatly affected economic development. In anticipation of Confederation the government of the St. Lawrence colony had reduced its tariffs to bring them more in line with those of the Maritime colonies. Upon Confederation, the new

government adopted a very moderate tariff embodying very little protection to industry. At this time, the period of reciprocity was seen as a golden age and Canadian statesmen made regular pilgrimages to Washington seeking its revival. In the United States, however, a policy of protection had been adopted. The diminution of the political power of the Southern States, who had wished free trade as they produced the greatest export, cotton, meant that tariff policy was directed to benefit the industrial North. Thus the pilgrimages of Canadians were in vain.

The Conservative government was defeated in the election of 1873, and the Liberals who came to power, many of them free traders, kept tariffs at a very moderate level. Unhappily for the Liberals, a depression began in 1873, and they were defeated at the next election. Protectionism was adopted by the new government. The National Policy, embodied in legislation in 1879, and based on the young economy argument, extended high protective tariffs to the manufacturing industry. This policy stamped the Conservative party as the party of the new industrial interests. The men engaged in the great export industry, lumbering, did not present any concerted opposition to the new policy, while the farmers of the central provinces, now producing very largely for the home markets, were seemingly indifferent. The Maritimes, a natural free trade area, were not powerful enough politically to influence policy. One may, in a sense, interpret this National Policy as a return to the protectionism which had been growing in Canada in the 1850's after England adopted free trade.

It was not until 1897 that a significant change in the tariff policy was made. The Liberal party, under Laurier, had secured a majority of the seats in the House of Commons in the election of 1896, and a distinctly "Liberal" tariff policy was desired. Some opposition to the National Policy had developed, particularly among the farmers in the West, and some reduction in tariffs had been made on farm machinery in 1894. The political power of the West was not great, however, and when the new government made inquiries concerning tariffs, the case for protection was presented forcibly by representatives of the more highly industrialized regions of central Canada. Lower tariffs on wire fencing and binder twine were offered as concessions to agricultural discontent, but, in general, the high tariffs of the National Policy were retained by the Liberals. The distinctive characteristic of the new policy was "imperial preference"—lower tariffs on goods from Great Britain and British countries. This preference amounted to a reduction of 25% in the level of the tariffs on British imports. Previously, the aim of the Liberals had been to secure reciprocity with the United States, but the Republican Party, returned to power in the election of 1896, raised tariffs and would not negotiate. Imperial preference was a sign of the abandonment of attempts by Canada to secure reciprocity with the United States.

Imperial preference and reciprocity represent the responses, by Canada, to the problems of dealing with her chief markets and sources of supply. The possibility of strengthening the political bond with Great Britain through a tariff policy which will increase trade has always attracted adherents. On the other hand, the economic advantages of a closer trading relationship with the United States are often very apparent.

The conflict of these two policies is illustrated by the tariff controversy in the election of 1911 in which the Liberals were defeated. Some discontent with the high tariff policy of the United States had been growing as the Western States were settled. In the election of 1908, tariff reform, meaning tariff reduction, had been one of the planks in the platform of the victorious Republican party. When a new tariff bill was passed by Congress, however, the reductions in the tariffs were small and did not satisfy some groups. One of these was the newspaper publishers; by their profession a most articulate group with ample means of reaching an audience. The publishers had hoped for a large reduction in the tariff on newsprint imported from Canada, and had received a small one. The agitation in the United States, promoted by the publishers, had a counterpart in Canada, in the increasingly insistent demands of the Western farmers for lower duties, so that, when the United States broached the idea of reciprocity, the Laurier government received the idea favorably. Arrangements were made by which the countries were to pass bills in their legislature which would bring reciprocity into force.

The Congress of the United States passed the law, but, unfortunately, when the law was being passed, some indiscreet speeches were made that suggested that reciprocity would result eventually in absorption of Canada by the United States. The Conservatives challenged the new policy of the government, and an election was fought on the issue. Using the ammunition provided by the indiscreet speeches of American leaders, and the slogan "No truck nor trade with the Yankees", the Conservatives won. Reciprocity, which most Canadian governments had sought for half a century, had been rejected by the electorate.

Except for a period during the First World War, when some duties were increased for revenue purposes, tariffs were kept at the earlier level but tended to decline during the 1920's. In 1930, however, the United States increased their import duties a great deal in the hope of increasing employment. The level of tariffs was increased in Canada, and under the Conservative administration of R. B. Bennett, a return to an expanded form of Imperial preference was adopted. At a meeting in Ottawa in 1932, several agreements were concluded among the Commonwealth countries and Great Britain in an attempt to expand trade. Unfortunately, these Ottawa Agreements did not lower tariffs, but rather maintained existing tariffs among the Commonwealth countries, and increased tariffs against other countries of the world.

In 1932, F. D. Roosevelt was elected President of the United States with a large Democratic majority supporting him in Congress. In 1934, a tariff act was passed by which the President was granted the right to lower import duties through agreements with other countries. In 1935 Canada and the United States entered into agreements which lowered tariffs, and later these countries and the United Kingdom made further arrangements to lower duties.

After the Second World War an attempt was made to form an international organization to provide co-operation in this field. Members of the organization were to negotiate tariffs with each other, and to abide by certain rules. This organization, the International Trade

Organization, is not in operation as countries are not willing to limit their control over their tariff policies by joining such an organization. A second organization, the General Agreement on Tariffs and Trade, was formed among the countries which met to form the International Trade Organization. This organization is much less formal than the I.T.O. Representatives of the member countries meet periodically to bargain on tariffs; as its name implies, the tariff bargains are not made between two countries but rather are more general and are extended to all interested countries. Thus if Canada and the United States made an agreement on wood pulp, that agreement would set duties which would apply to other exporters of pulp, e.g. Sweden and Norway.

There has been a tendency for tariffs to decline from the high levels reached in the early 1930's. Canada has a moderate tariff with a fairly high level of protection for certain manufactured commodities. There is at present (June, 1954) some agitation to increase the protection to some industries experiencing unemployment. In the United States, the Trade Agreements Act of 1934 has been renewed, but there is an influential group trying to limit the power of the President to lower duties. This group seeks more protection for industry. The tariff of England is not as important as other devices of control of trade which we shall examine later.

Canada's Foreign Trade

A comparison of the foreign trade of Canada with that of other countries reveals clearly its great significance in the economy. Although Canada is a young country, with a relatively small population, the value of its trade is exceeded only by that of countries more highly developed and with much larger populations.

Table I

Exports, Imports, Total Trade, and Per Capita Trade.
United States, United Kingdom, France, Canada, 1951.
Measured in United States Dollars.

	Exports \$000,000	Imports \$000,000	Total Trade \$000,000	Per Capita Trade \$
United Kingdom	15,038	12,444	27,482	175
United States	7,580	10,954	18,534	366
France	4,161	4,523	8,684	206
Canada	4,038	4,194	8,232	588

In 1951, the foreign trade of France exceeded that of Canada, but they were nearly equal and, in some years, Canada has ranked third among the trading nations of the world. It is when per capita trade is considered that its significance to Canadians becomes apparent. In this classification Canada usually leads the world although outranked by New Zealand occasionally. This means, of course, that a very large portion of Canadian production is exported: at least 20% of all the goods and services produced by Canadians in any year will be sold abroad. It means, also, that about the same percentage of goods and services which Canadians use will be bought from abroad. As buyers and sellers, we deal constantly with other countries.

Since Confederation, the exports of Canada have changed greatly. To a high degree they remain products of our natural resources—forests, farms and mines—but the discovery of new resources, and the

development of those resources, and of industry, have changed the composition of our exports significantly. Such changes occur gradually, but three periods with quite distinct patterns of exports may be discerned.

The first is the period from Confederation to the turn of the century. The loss of preference in the English market in the late 1840's brought a considerable decline in the exports of wheat and flour. In any case, agriculture in Quebec and Ontario had progressed steadily towards mixed farming, with feed grains and root and vegetable crops grown to feed an increasing animal population. Animals, and animal products such as cheese, meats and lard, were being produced in increasing quantities. Much of this new production found a market at home, but the introduction of refrigeration permitted larger quantities to find markets abroad. By the turn of the century, animal products, which include fish, always an important export of Canada, made up nearly 40 per cent of all Canadian exports. Forest products, of course, remained a great staple, with increasing quantities of sawn lumber, and wood pulp for paper making, finding a market in the United States. Small, but growing quantities of wheat were being shipped from the west and the name Manitoba was becoming an indication of quality in the wheat markets of the world. The mineral wealth of Canada was being disclosed steadily as transportation opened up new areas. A relatively small quantity of minerals was exported; of these gold was the most important in the 1890's, as the Klondyke gold discoveries were made in this period. These two industries, wheat growing and mining were, at this time, in the developmental stage as their chief areas of production were being reached by the expanding transportation facilities.

From 1900 to the late 1920's a great change in the pattern of exports occurred. As immigration and settlement of the west continued, the trickle of wheat became a great stream and wheat became, by far, Canada's greatest single export. Agricultural and vegetable products, a statistical classification which includes wheat, now constituted 40% of Canadian exports. Wheat had displaced exports of animals and animal products from their leadership. The growth of manufacturing in the central provinces, and western settlements, provided a much larger home market for the products of mixed farming, while the rise of the grazing industry in South America and Australia and New Zealand provided new sources of supply.

In this period there was a great expansion in the capacity of the newsprint industry in Canada, and the value of exports of wood products increased steadily. Sawn lumber continued to be important, but newsprint, wood pulp, and pulp wood were produced in increasing quantities to meet the demand for paper in the United States. The greater degree of processing involved in paper making increased the value of the exports of forest products.

Mining had made remarkable progress, and a considerable portion of the production of this industry was sold abroad. Now the base metals—copper, zinc, nickel, lead, as well as the precious metals, silver and gold, and asbestos were being exported in large quantities. The production of gold expanded, and Canada became one of the great gold

producers of the world, but the development of the base metals decreased its relative importance in mineral exports.

Although wheat was the great export of this period, agricultural products as a whole were becoming less important in Canada's foreign trade. This was due in part to increased population and consumption of food, but also to the expansion of the newsprint and mining industries.

Since the 1920's the trends discernible in the early decades of this century have continued, and the products of our forests and our mines now provide a much larger portion of our total exports.

Table II
Value of Selected Classes of Exports, as a Percent
of the Value of Total Exports

Export Class	1896-1900	1926-1929	1947-1950
Wood products	20%	23%	30%
Non-ferrous metals	6%	10%	17%
Agricultural and Vegetable products	22%	31%	22%
Animals and Animal products	39%	12%	12%

The expansion of demand for paper products has elevated wood products to the leading position among our exports, and these now are nearly equal in value to all our agricultural exports. It will be noted (Table III) that the first, third, and fourth of our leading exports in 1951 were forest products, and that, although wheat has lost the dominant position it held in the 1920's, it still ranks second to newsprint in value and large quantities are sold abroad. The lesser importance of wheat is due to the greater variety of goods now shipped abroad and to increases in the degree of manufacture of some goods. Also, there has been a very large increase in exports of minerals. Although only one native mineral was ranked among the first ten exports in 1951, if the table had been extended it would be found that copper, zinc, and asbestos, in that order, were the next most valuable exports. Our exports of aluminum are, in effect, exports of hydropower and labor, as all the materials for their production are imported. It will be noted that fish retains its historical position as an important product of Canada.

In the 1920's, about half the goods shipped abroad were raw materials; now only slightly more than a quarter of total exports are not processed. This has not resulted in a rise in the proportion of totally manufactured goods in our exports; rather the proportion of partially manufactured goods has increased. Goods are being advanced a stage in the industrial process in Canada before being shipped abroad. This, of course, increases their value, and may very well save transportation costs by decreasing their weight.

The development which has taken place in this century, particularly the diversification of exports, makes Canada much less vulnerable to disturbances from abroad. Formerly, if the price of wheat fell, the earnings of foreign exchange would decline considerably; now, unless there is a world-wide depression, the fall in price of one export will not bring such a very great change in Canada's foreign exchange position, and, indeed, might even be compensated by a rise in the price of another export. The recent fall in the price of wheat, while it will

adversely affect the incomes of some farmers, should not have the serious consequences for the economy as a whole that it would have had in an earlier period.

Table III
Value of Leading Exports of Canada, In Canadian Dollars and as a Percentage of Total Exports, 1951.

Rank	Commodity	Value \$000	% of Total
1	Newsprint	536,372	13.7
2	Wheat	441,043	11.3
3	Woodpulp	365,133	9.3
4	Planks and Boards	312,198	8.0
5	Nickel	136,689	3.5
6	Grains (other than wheat)	129,214	3.3
7	Aluminum	124,779	3.2
8	Fish	117,464	3.0
9	Flour of wheat	113,854	2.9
10	Farm Implements and Machinery	106,438	2.7

No pattern of change in imports, similar to that in exports, can be discerned in the period since Confederation. Throughout her history Canada has obtained from abroad many of her manufactured goods, and, despite the growth of manufacturing in Canada, this condition still prevails. Typically about two thirds of total Canadian imports are manufactured goods.

The character of the goods imported has changed considerably. This, however, has taken place in conformity to changes in technology and consumption habits, and to the development of new products, rather than as a result of some historical change within Canada itself. The fostering of industry through tariffs did bring a substitution of raw material imports for finished goods, but this movement did not bring an abrupt change in the character of imports although it may have accelerated the change which is part of the long-term trend.

The increase in industry, and the increase in income, have permitted Canadians to adopt the new technologies and new products, as well as permitting an increase in the variety of goods in consumption. Canadian consumption is much more "American" than is its production, i.e. the flow of immigration, ideas, and trade north and south across the border has been a much more important influence on consumption than have the natural resources.

One effect of these forces is the relative decline in imports of textiles and fibres. As new products enter into consumption, the portion of the income spent on clothing is likely to decline. Also, in Canada, the textile industry has been one of the chief recipients of favors under our tariff policies so that the tendency has been to import the less expensive raw materials. Imports of raw cotton and wool, and of textiles, are important in value terms, but they are much less important than formerly. Much the same reasoning explains the relative decline in the imports of animal and vegetable products. However, the importation of such foods as spices, nuts, citrus and tropical fruits and vegetables out of season, will expand with increased income and tend to offset the decline in the proportion of incomes spent on foods.

The increase in the variety and complexity of machinery, as well as new products, in our productive processes, and the new consumption

goods such as household appliances and automobiles, which have been adopted into general use, have increased our imports of such goods very greatly. Thus Canada buys from abroad large quantities of machinery, automobile parts, and electrical apparatus. In some instances quite similar goods are produced in Canada, but a larger variety is made available by trade. In other cases, larger units may be produced abroad and not in Canada, or, perhaps, the larger market of the United States may permit the use of methods of production which could not be economically used to supply the smaller Canadian market. The effects on imports of these technological and product changes is shown in the increased value of imports of metal products: in 1900 such imports made up about 36% of the total, today they make up about 57%. The growing use of chemicals is reflected in an increase in the proportion of chemical imports; such imports are not a large percentage of the total, but they have increased greatly in the last two decades.

About one quarter of Canadian imports are raw materials, some of which, such as raw wool and cotton, are used wholly by our manufacturing industry. Some raw materials, such as coal, may be used by consumers as well as by industry. Although no trend is discernible, it may be expected that the raw material content of Canadian imports will increase if industry continues to grow. However, discovery of sources of raw materials in Canada may bring a short run decline. Such will be the case when production of petroleum from the Alberta oil fields displaces petroleum formerly imported.

This change in the character of imports explains, in part, the very considerable shift in the geographical source of Canada's imports. Throughout this century there has been a tendency for the imports from the United States to form a larger part of the total. A movement opposing this long term trend, the decline in the percentage of imports from the United States in the 1930's, was due to the attempt of the Commonwealth countries to form a trading block under the Ottawa Agreements. The United Kingdom, as a highly industrialized country, is an alternative source of many of the manufactured goods we obtain from the United States, and was able to provide a larger portion in the 1930's.

TABLE IV

Geographical Source of Canada's Imports.

As percentages of Total Imports, 1896 to 1951
(As some areas are omitted the totals do not equal 100)

	<u>United States</u>	<u>United Kingdom</u>	<u>South America</u>
1896-1900	54-50%	25-30%	.4%
1926-1929	66%	15%	1.9 to 2.3%
1934-1939	60%	19%	3.1%
1946-1950	71%	11%	5.5%
1951	70%	11%	—

As Canadians and Americans are influenced by the same or similar advertisements and news, much of it emanating from the United States, and live in countries which are quite similar in character, their tastes in consumption have become very similar. The earlier industrialization of the United States, and the fact that incomes have been higher in that country, tended to establish a pattern of consumption which was later adopted by Canadians. Appliances and equipment

used in Canadian homes are practically the same as those used in the homes in the United States; our motor cars are built by companies controlled by American companies, and are similar to American cars; citrus fruits from California and Florida are included in Canadian, as well as American breakfasts. Our production processes, also, although differing in some respects because of differences of resources, very often use the same machines used in the United States. So of course as our incomes, consumption, and degree of industrialization advance, we tend to draw a larger portion of our imports from the United States. The proximity of the countries, permitting easier communication, may also influence imports.

This, of course, has meant a decline in the proportion of apparatus and machinery bought from England and continental Europe. The establishment of such a domestic industry as the textile industry has also tended to reduce the imports from the United Kingdom, and insofar as raw cotton is imported from the United States, to increase imports from that country.

The increase in the imports from South America illustrates the tendency for the quantity of imported food to increase with increased income. (South America is chosen as a representative of countries with different climates—imports from Asia and Africa show somewhat similar trends). This, of course, means that although the United States and the United Kingdom supply the lion's share of our imports there is a tendency for these two countries to provide a lesser part of the total.

The shift in the geographical destination of Canada's exports is much more extreme than is the shift in imports. The proportions of exports to the United States and United Kingdom have been reversed in this century.

TABLE V

Geographical Destination of Canadian Exports
As a Percentage of the Value of Total Exports—1896-1951

	United States %	United Kingdom %	All Others %
1896-1900	28	60	12
1926-1929	38	35	27
1934-1939	35	41	24
1946-1950	49	22	29
1951	59	16	25

The change in the character of Canadian exports, and the depletion of the supplies of wood and mineral resources of the United States, are the chief reasons for this change. At the end of the last century England was importing from Canada large quantities of foodstuffs and some lumber. However, as noted earlier, there was a relative decline in Canadian exports of animal products and of lumber as the quantity of wheat exported expanded in the first two decades of the century. The expanding sales of wheat to the United Kingdom did not offset the decline in sales of animal products and lumber. As a considerable portion of our wheat was exported to countries other than the United Kingdom—notably continental Europe—the proportion of total exports destined for the United Kingdom and United States declined greatly.

On the other hand, those wood products whose exports have increased in this century—pulp and paper—are, for the most part, shipped to the United States. The United Kingdom, which, in 1900, received over half of total Canadian exports of wood products, in 1950 received about 10%. Similarly, the increase in the exports of mineral products, which have always found their chief market in the United States, increased the proportion of exports directed to that country.

Examination of the trade picture of Canada shows very clearly how its economy is being integrated with that of the United States. About 70% of Canadian imports, and 60% of Canadian exports are derived from or enter into that country's economy. This is a great portion, and highly significant, but it is also significant that the trend of development of the Canadian economy is towards the production of goods whose natural market is the United States. Some of the developments in the mining industry have been undertaken simply because of the assurance of a market in the United States. Admittedly there has been a tendency for a larger portion of mineral exports to be shipped to the United Kingdom but by far the largest part will continue to be sold in the United States. The increased sales of exports to Africa, South America, and Asia are too small as yet to be considered important. If those countries became highly industrialized fairly rapidly and their incomes increased, they would become important markets for Canadian products. That is a question of the future.

Canada's earlier dependence upon a few staple exports has now disappeared with the rapid development of transportation, and the exploration and discovery of new natural resources. Such discoveries will undoubtedly continue, and the diversification in production which such discoveries permit become more pronounced. This diversification of Canadian production, as indicated by the change in the character of exports, has proceeded very rapidly in the last half century. Most fortunately, the resources discovered in Canada in recent years—iron ore, petroleum, uranium and base metals—are those which are in great demand so that Canadians have every reason to be optimistic about the future of their economy.

International Payments

In our study of international trade only exports and imports have been considered. While exports and imports are the most important quantitatively, transactions other than the actual buying and selling of goods arise between the people of one country and those of other countries. The various international transactions are presented in a Balance of International Payments statement. Payments, of course, may be made by the people of a country—in this case they are classed as debits—or to the people of the country, in which case they are considered credits. Under credits are included those items which give rise to payments to a country; under debits, those which require payments by the country. All the external financial transactions of a country for a period of time will be represented in the Balance of International Payments statement.

Country A, Year X

(Millions of Dollars)

<u>Credits</u>		<u>Debits</u>	
Exports	2,400	Imports	2,200
Tourist Expenditures	300	Tourist Expenditures	200
Shipping and Freight	200	Shipping and freight	450
Interest and Dividends	76	Interest and Dividends	125
Securities sold abroad	200	Securities bought from abroad	500
Direct Investments	600	Direct Investments	300
	<hr/>		<hr/>
	\$3,775		\$3,775

The first and largest item in a balance of payments statement lists the payments arising from the merchandise trade—exports bringing credits, while imports result in debits. In our statement the country sold abroad \$2,400,000,000 worth of exports and bought from abroad \$2,200,000,000 worth of imports.

The second item, tourist expenditure, is somewhat similar to exports and imports. When a tourist enters a country and buys gasoline, food and lodging, he is consuming some of the goods of the country just as he would had he stayed at home and bought exports of the country. The tourist has, as it were, accepted delivery of exports within the country. His expenditures are credits on international account to the host country. This earning of foreign money through tourist expenditures justifies the expenditures to induce travellers to visit. If, however, the people of a country visit abroad, the goods and services they buy give rise to debits.

If a tourist visiting a country used the train to travel his train fare would be an expenditure and give rise to a credit in our statement. Similarly, if goods from abroad, instead of people, use the transportation facilities of a country, the fees for shipping would be a credit to the country. If, however, the country uses other countries' shipping facilities, then it must pay those countries, and the payments will appear as debits. If Canadian shippers use British ships to transport wheat to Liverpool, then the fees for shipping are debits in Canada's account.

Receipts from abroad, or payments to abroad of interest and dividends, depend upon the fact that people in one country may own the bonds or stocks of firms or governments of other countries. A Canadian may own bonds of the American Telephone and Telegraph Company, and, of course, each year he will be paid interest. This payment of interest by an American company would count as a credit in Canada's statement. On the other hand, if a Canadian government bond is owned by an American, the interest payment will be a debit in Canada's accounts. If a company in Canada, partly owned by Englishmen, makes a profit and distributes that profit to the owners as dividends—then a debit arises in Canada's accounts as the payment is made.

These interest and dividend payments are the result of past international investment and such investment is being carried on continually. Such investments give rise to international payments at the time they are made. One must be careful here, however, as the position of credits and debits is the reverse of what people expect. For instance, when the American in the example above bought the Canadian govern-

ment bond he had to pay for it; that is, for the period, the sale of the bond results in a credit in Canada's account. Another way to look at it is to consider that Canada exported the bond, a valuable promise to pay interest and capital in the future, and, of course, as an export at the time the corresponding payment is a credit. If a Canadian buys a bond from abroad, he must make a payment, so this becomes a debit.

The purchase of a plant, a mine, or a farm, or some such physical asset in a foreign country is direct investment. Instead of buying a bond, the foreign investor has bought an ownership. It is still an investment, however, so a direct investment in a country gives rise to a credit in that country's balance of international payments. If an American company decides to build a factory in Canada it must pay wages to Canadians, buy Canadian materials, land, etc. There is a certain similarity between a tourist and a company building a plant—a tourist buys consumer goods and services, while the investor buys more permanent assets. These permanent assets, it is hoped, will result in a reverse flow in the form of dividends in the future.

The Balance of International Payments for a period is a true balance in the sense that credits and debits are equal. This must be so for, if a country buys more goods and services than it sells, it must owe for the difference, and this would result in a larger debt of the country abroad, i.e. it would have to borrow to pay for the extra imports. The balance of trade is different; it refers to the relationship between the payments for imports and from exports. These payments need not be equal—if a country exports more than it imports, it is said to have a favorable or active balance of trade; if the reverse, an unfavorable or passive balance. A country with a consistently favorable balance of trade must be investing abroad, i.e. it is accepting the promises to pay of firms or governments of other countries in payment for the excess of exports over imports.

The Balance of International Payments statement represents an attempt to summarize the multitude of international transactions entered into by the people of a country in a period of time. It is expressed in payments form and shows payments to foreigners and payments from foreigners. Now, of course, ordinarily a citizen does not possess the money of other countries, and has no use for such money. He carries on his transactions in his own money, the exporter receives payment in his own money, and the importer pays in his own money. Dealers in foreign moneys—the banks usually—intervene and buy the receipts of the exporters, giving him domestic money for his foreign exchange, and, in turn, selling foreign exchange to the importer—so he can pay for his purchases. As dealers, banks do not keep any considerable supply of the actual bills of other countries but have deposits in banks in other countries upon which they can draw to provide importers with foreign money, and to which they can return the foreign exchange received from exporters. The system is very similar to the ordinary check system within a country.

Although a bank may have deposits in other countries it is unlikely that it would hold them in all other countries. Rather large centers become markets in which the moneys of all countries can be bought and sold. Last century London was the great money market of the world and a very large portion of the international transactions of

the world were carried on in the English money— pounds sterling. If an exporter in South America sold goods to the United States he would accept payments in pounds. The pounds would be very acceptable as they could be exchanged in the London market for any money in the world. The banks of the United States would have a supply of pounds, as they would have deposits in English banks only rather than retaining any in other countries. The bankers did not concern themselves with a multitude of currencies, but rather deposited their foreign receipts in their London bank sure that their deposits in pounds would be acceptable as payment anywhere in the world. There was a great economy in this as all payments entered one center and were constantly balanced off against each other. For example, the pounds our South American exporter has received might in turn be used to buy goods from Germany, then perhaps meat from the United States. All countries would use the London market to settle their transactions simply because it was simple and efficient. Since the First Great War other markets have arisen; the most important are in Paris and New York.

The gold standard was in general use at the time, and, although it is no longer used, an explanation of how it worked may illustrate how the value of one money in terms of another may be determined. If countries are on the gold standard they will buy and sell gold at a fixed price. Let us suppose two countries are on a gold standard—the first will buy or sell gold at 35 dollars an ounce, the second will buy or sell an ounce for 175 pesos. As they are equal to the same thing 35 dollars and 175 pesos are equal, or one dollar is worth five pesos. The use of a common good as a measure makes the value of one money in terms of another very simple to determine.

These rates of exchange under the gold standard could vary slightly. Let us assume that the dollar country was buying more goods from the peso country than it was selling to it. Then the bankers would have to obtain more pesos for their importers than their exporters were selling them. Pesos would be relatively scarce, and their dollar price would rise slightly—they might be worth nearly 21 cents rather than 20 cents. But there is another way the banks can get pesos. They can buy gold with their dollars, ship the gold to the pesos country, and buy pesos with it. Although the actual buying of gold and pesos would be carried on at the set prices ($\$35 = 1 \text{ oz. gold} = 175 \text{ pesos}$) some expense is involved in shipping so that the 175 pesos would cost something more than \$35. It cannot be much more, however, as the cost of shipping and safeguarding gold is very small, so that when a gold standard is in general use the values of moneys vary very slightly. The great advantage of the gold standard was that it stabilized the exchange values of moneys.

There is, however, a great disadvantage to a gold standard. The central bank of a gold standard country must sell gold at a set price in terms of its own money. If the country is experiencing an unfavorable balance of trade the central bank may be called upon to sell more and more gold to pay for imports. As the amount of gold in the country becomes less, the amount of money circulating in the country becomes less, as under the gold standard the amount of money depends upon the amount of gold. If the amount of money becomes less, prices will

tend to fall, and this, under modern conditions, may result in a depression. A country on the gold standard may not be able to maintain the gold standard and avoid a depression, or, if a depression comes, may not be able to combat unemployment if it remains on the gold standard. This is the weakness of the gold standard—a country on the gold standard cannot decide the proper amount of money to carry on the economic activities of the country as the amount of money in circulation is almost automatically determined by the quantity of gold it holds and this, in turn, depends upon its international balance of payments. This explains why the gold standard was abandoned in the depression of the 1930's.

Under a free exchange standard the exchange rate of a country's money is determined by supply and demand as indicated by the balance of trade. If a country exports more than it imports, other countries will have difficulty in obtaining a sufficient supply of its money to pay for its exports, so that the price of its money will tend to rise. If the reverse position were true, the price would tend to fall. Thus the exchange rate of a country's money will tend to fluctuate in accordance with the sales or purchases abroad of its citizens.

Other transactions which enter into the balance of payments of a country will also affect its exchange rate. Investment, in particular, has had a very considerable effect on exchange rates. An example of this is seen in the rise in the price of the Canadian dollar in recent years. Foreign investment, particularly American investment, in Canada provided Canadian dealers in foreign exchange large supplies of foreign currency as the investors bought Canadian dollars to pay for their investment. Canadian dollars became relatively scarce so they increased in value.

Under free exchange the values of money can change much more than they could under the gold standard. This is not very desirable as it introduces a greater degree of uncertainty into trade. Stability is sometimes attained by government intervention through a system of exchange control. Under exchange control the government sets a fixed exchange rate for its currency but controls all external payments of the country. It buys all the foreign exchange that its exporters earn, and sells it for approved purposes. If an importer wishes to buy a good the government considers necessary, the importer is allowed to buy the foreign exchange to pay for it; if, on the other hand, the importer wishes to buy a good from abroad which is not considered essential, then the importer is unable to obtain the foreign exchange to pay for the good. The government usually limits the amount of foreign exchange that its people can spend abroad on visits. In this practice, the government is rationing a scarce commodity (foreign exchange) just as it might ration sugar or meat in a time of war.

It can be seen that exchange control, by rationing the means to pay, may limit the imports of a country. It is by this means that England, which maintains exchange control, limits the purchase of certain goods from abroad. For example, it may not allocate exchange for the purchase of Canadian apples.

In England's case the attempt is to limit the purchases from the dollar area, as exports to that area do not provide sufficient dollars to pay for all the goods the people of England might wish to buy. In the

sterling area purchases and sales are not closely controlled, as the countries in the area are willing either to buy enough goods from England to permit her to buy what she needs, or to accept England's promises to pay (to lend to England) for any difference between exports and imports. Countries in the sterling area are those which trade chiefly with England, and may include such countries as Denmark and Egypt as well as British Commonwealth countries. The local currencies are, of course, not sterling but their foreign transactions are carried on through London. The advantage of trading freely among themselves induces countries to join the sterling bloc.

At present Canada and the United States do not practice exchange control. Exchange control is an effort to produce a more favorable relationship between exports and imports by restricting imports. If a country's balance of payments is satisfactory, no exchange control is necessary. Although Canada introduced exchange control during the war and for a period after it, at present it has no need to control its foreign transactions.

A country with an unfavorable balance of trade may correct that balance by restricting imports through exchange control. Another way would be to permit the value of its currency to fall in terms of other currencies. If it did so, its exports would become cheaper in other countries in terms of their money and a greater volume of exports would be sold. Also, imports from abroad would be more expensive in the country with the less valuable money, and fewer imports would be bought. In this way, by increased exports and decreased imports an unfavorable balance of trade might be corrected. When England reduced the value of the pound in 1949 it was in the hope of correcting an unfavorable balance of trade.

This solution of the problem may bring retaliation from other countries. Their imports are increasing and may compete with home produced goods and cause unemployment. At the same time their exports are decreasing. Unless there is full employment the other countries will also lower the value of their money so that the first will not have a competitive advantage.

A country could also permit the prices within the country to fall, and so avoid exchange control and devaluation of its currency. The effects with respect to the balance of trade would be similar to those when the currency was devalued—exports would be cheaper and more would be sold, while imports would be relatively more expensive, and fewer would be bought. This would have a corrective effect on the balance of trade. Unfortunately, a general decline in the level of prices is difficult to achieve in a modern economy with long-term wage contracts and other future commitments, and, if it were achieved, would likely result in unemployment. In a modern economy, "full employment" is demanded by the people and a government could not maintain office unless it achieved "full employment". It may be expected that exchange control or devaluation of the currency will be used to correct a poor external payments situation of a country rather than a policy of lowering the price level.

A country which carries on a large volume of international trade is, in some respects, in a difficult position. If other countries decrease their purchases of its goods, the incomes of producers of exports may

fall. In turn, these producers, because of their lowered incomes, will buy fewer goods and this may cause unemployment in other sections of the economy. The recent decline in the price of wheat will lower farm incomes in Canada unless the amounts sold increase or farm income from other sources increases. This, in turn, may lower the incomes of farm machinery workers and dealers—and the decline in incomes may snowball through the economy.

Also, the price structure of a trading country must be kept in line with the price structure of its trading partners. If prices rise too much, its exports become too high priced and decline. Even if prices are stable at home, and a depression and falling prices occur abroad, the country will encounter difficulties. If it maintains its price structure it will be priced out of the market; if it permits prices to fall, there may be depression. A trading nation cannot insulate itself against changes in markets abroad, so that its economy may be seriously affected by changes over which it has no control.

Another problem which sometimes arises in international trade is dumping—the sale of goods in a foreign market below the price at which they are being sold in the home market. A firm might be unable to sell all its production at home unless it reduced prices. Having no wish to spoil the home market by lowering prices, it ships some of its production abroad to be sold at a low price. In the other country, however, firms will have to lower prices or not sell their production. The difficulty about dumping is that it occurs sporadically, so that firms in the country receiving the dumped goods are not able to make long range plans. Canada was the first country to institute special tariffs against dumping—an attempt to insure that home producers will not be exposed to such unfair competition.

The Gains from Trade

These disadvantages of foreign trade are very real but they are counterbalanced by the gains from trade. The more efficient use of the factors of production and increased territorial specialization are possible if there is a large volume of world trade. This results in a larger quantity of goods being produced while, through trade, a greater variety is made available to any single nation.

The advantages in production of geographical specialization are most obvious in the development and use of natural resources. A country may possess great natural resources, but their development and use may depend upon finding a market abroad. The iron ore of Ungava and the water power of Kitimat would lie idle for some time in the future if the Canadian market alone were to be supplied. The natural gas of the Peace River districts of British Columbia and Alberta apparently will not be supplied to the domestic market in British Columbia unless and until a larger market is available in the United States.

While not so obviously advantageous as the development and use of natural resources, the extension of the division of labor through foreign trade, as it makes use of the special skills developed in the different regions of the world, probably provides greater gains. The German chemists of the 19th Century, and the Swiss watchmakers of the present, supplied world markets with the products of their special

skills. The fine fabrics of England are as much the product of the developed skills of the weavers as of the special climate and technology.

The large international market may permit a more efficient use of capital. The general adoption in England of the new industrial techniques and machinery developed during the Industrial Revolution was based upon the expanding world market for cloth and iron and steel products. Economies of scale through the use of highly complex machinery may result from enlarged markets. Moreover, through international trade and investment, the most advanced technology is disseminated throughout the world and adopted in all countries where it can be used economically. Not only does this increase production directly, but also accelerates progress in the development of new production processes: a competitor in world markets must produce efficiently, and will gain from any new techniques it develops.

More nebulous is the gain from the increased variety of consumer goods made available by trade. Domestic substitutes might be found for many of the goods now imported, but the very fact that imports find a market implies that they provide increased satisfaction; such satisfaction, however, resulting from the availability of a wider choice of goods, is difficult to evaluate.

The greater real income which results from the more efficient use of the factors of production is divided among them by the market process in the form of wages, interest, and rent. In a country such as Canada, whose exports are largely based on natural resources, the real income is undoubtedly much larger than it would be without trade, and is produced with much less human effort than it would be in a less happily endowed country. The incomes of Canadians, the second highest in the world, may be maintained only if trade is carried on freely.

THE PEACE TREATIES, 1947

The Paris Peace Conference, 1946

Fifteen months of hard negotiation preceded the signing of the peace treaties with Italy, Bulgaria, Hungary, Rumania, and Finland at Paris in February, 1947. The Council of Foreign Ministers of the victorious Allies met at London, Moscow, and finally at Paris where for three months, July to October, 1946, representatives of the nations, which had been at war with the five countries mentioned above, slowly worked out in debate treaties to which the majority could agree. At many points there were widely divergent views and lack of agreement but the difficult task was finally accomplished. The treaties were signed by the five ex-enemy countries in February, 1947, and ratified by the respective governments in the following September.

The spirit in which the representatives approached the framing of these treaties can best be understood by reference to the speeches made at the Paris Conference. Mr. Molotov, representative for the Soviet Union, said: "Justice demands above all that we have regard in practice for the interests of the countries that were attacked and suffered as a result of aggression . . . It must be clear to us that the attacking countries that went to war as Germany's allies should be held responsible for the crimes of their ruling circles. Aggression and invasion of foreign countries must not go unpunished if one is really anxious to prevent new aggressions and invasions." Dr. Evatt of Australia, the champion of the little nations at the conference, declared: "First, we are not justified in imposing our common will upon the defeated enemy in any spirit of mere vindictiveness or caprice. Our aim is justice, looking to the future as well as to the past, for we are, in a sense, the trustees of all the United Nations, of all the ordinary men and women throughout the world who look to us to give an enduring and a just peace to them and their children." General Smuts of South Africa, having congratulated the representatives on the measure of success achieved by the Conference, ended with a warning: "We seem already, in this moment of unparalleled victory, to be forming up into new camps between East and West. That would be a fatal impression and we must dispel it without loss of time. Our leadership must take counsel together and set people's minds at rest. This fear of our splitting up into two camps transcends all other issues arising from this conference and should be dispelled by them . . . Let this conference point the way to that greater peace."

SUMMARIES OF THE PEACE TREATIES

The settlements followed the usual pattern of territorial adjustments, indemnities, and reduction of armed forces but were less harsh and exacting than many former European peace treaties. It will be noted that many of the territorial adjustments merely restored former boundary lines.

Italian Peace Treaty

Italy renounced all title to her African colonies of Libya, Eritrea, and Italian Somaliland. These countries were placed under the trusteeship of the United Nations until their future had been agreed upon. Libya is now an independent sovereign state. Somaliland will become

an independent sovereign state within the next ten years. In the meantime this country is administered by Italy with an advisory council of United Nations representatives. Eritrea continues under United Nations trusteeship until the will of the people can be more fully ascertained. At present there are two factions in Eritrea, one for complete independence and the other for union with Ethiopia.

The boundary between France and Italy was adjusted to give France five small Alpine areas with the understanding that hydro-electric developments in these places should be shared by France and Italy.

Yugoslavia received about 3,000 square miles of former Italian territory, and Trieste, a port on the Adriatic, became Free Territory under international control.

The Dodecanese Islands, inhabited by 150,000 Greeks, given to Italy in 1920, were returned to Greece.

Fascism was to be stamped out.

The Italian navy was reduced to two small battleships and four cruisers. The army was restricted to 250,000 men. The air force was restricted to 350 aircraft, none of which could be bombers.

Reparations totalling \$360,000,000 and an unspecified amount in overseas property and assets were to be paid by Italy to the Allies. Payments were to be made over a period of seven years chiefly in factory equipment and industrial products.

The Finnish Peace Treaty

Finland returned to the Soviet Union the province of Petsamo ceded to Finland by Russia in 1920, and agreed to lease a naval base to Russia in the Porkkala area.

The armed strength of Finland was reduced to meet tasks of an internal character.

As part payment for damage to Soviet property, reparation amounting to \$300,000,000 was to be paid to Russia, chiefly in commodities (timber products, paper, cellulose, ships and machinery).

The Hungarian Peace Treaty

Hungary restored to Rumania the area known as Transylvania, which has a predominantly Rumanian population, and ceded to Czechoslovakia a narrow strip of territory along the Hungary-Czechoslovakia border.

Fascism was to be stamped out.

A small armed force for the local defence of frontiers was to be retained.

To the Soviet Union, Czechoslovakia and Yugoslavia collectively, reparations amounting to \$300,000,000 were to be paid, chiefly in commodities (machine equipment, river craft, grain, etc.)

The Rumanian Peace Treaty

Rumania received Transylvania from Hungary but had to restore to Bulgaria southern Dobruja. The provinces of Bessarabia and Northern Bukovina, an area of 19,300 square miles with a mixed population of 3,000,000 of which a little less than one half is Ukrainian and Russian, were ceded to the Soviet Union.

A small armed force was retained to meet the needs of local defence.

To recompense in part the Soviet Union for losses sustained by Rumanian armed attack, Rumania was to pay Russia \$300,000,000, chiefly in commodities.

Fascism was to be stamped out.

The Bulgarian Peace Treaty

Bulgaria gained the territory of southern Dobruja for Rumania and conceded small territory adjustments to Greece on the Greco-Bulgarian boundary.

A small armed force was retained to meet the needs of the local defence of frontiers.

Fascism was to be stamped out.

Reparations amounting to \$70,000,000 were to be paid to Yugoslavia and Greece.

Control of the Danube River

In each of the peace treaties with Hungary, Rumania and Bulgaria, there was an article which stated that navigation on the Danube should be free and open to the traffic and commerce of all countries. This river was one of the main arteries of trade for Hungary, Rumania, and Bulgaria. Since 1856 the Danube has been under the control of international commissions and the river was open to the ships of all nations. Charges were made for the maintenance of the waterway only. World War II halted the work of the commissions. German occupation of Austria and Czechoslovakia and her alliances with other Balkan states gave Hitler (who had extensive plans for the development of this river) complete control of the Danube basin. The Soviet Union, by the annexation of Bessarabia, has now established itself at the mouth of the Danube and regards the Danube river question as one which can best be settled by Russia and her Balkan friends and not by international commission. Russia therefore opposed the articles dealing with commerce on the Danube and has ignored their implications.

JAPANESE PEACE TREATY, 1951

Japan, a country smaller in area than the state of California, but with a population of 84,000,000, came into contact with the western world in 1542, when a Portuguese ship visited the country. Contact with European countries was maintained until 1631. Thereafter Japan went into isolation and did not again enter into relations with the West until 1853, when Commodore Matthew Perry brought an American fleet into Tokyo Bay. After her renewed contact with the West, Japan quickly became a modern, industrial, and powerful nation. Beginning in 1895, she built up for herself, at the expense of her neighbors, a large empire. Japanese alliance with the Axis powers was a bid to establish Japan as the supreme power in the Far East.

All was lost on V-J Day, August, 1945, when the Japanese surrendered to the Allies whose leaders had declared at Yalta in February, 1945, that the Japanese would have to withdraw to their island homeland and stay there.

The Japanese empire grew as the following areas were overrun:
Formosa, 1895

Port Arthur and Manchuria, 1905

Korea, 1910

German islands in the Pacific mandated to Japan in 1920 by
the Treaty of Versailles

Manchuria, 1931

Southern China, French Indo-China, Siam, Burma, Dutch and
British East Indies, Malaya, the Philippine Islands, many
Pacific islands during 1940-1945.

After World War II Japan was occupied by United States forces under General MacArthur. He played a vigorous part in shaping the occupational policy, although he was assisted by two advisory bodies, the Far Eastern Commission at Washington and the Allied Council for Japan at Tokyo. Both councils were composed of Allied representatives.

During the occupation a new government was set up in Japan. The structure of the new government, which gives the Japanese people a political freedom they have never before exercised, is worth examination. In general outline it is similar to the structure of the British government.

1. The House of Representatives (the lower house), comparable to the British House of Commons, has 466 members elected by the people for a period of four years.

2. The prime minister and his cabinet ministers are drawn from the House of Representatives and are responsible to it.

3. The House of Councillors (the upper house), similar to our Senate, has 250 members also elected by the people for a period of six years.

4. The Emperor, who formerly had the power to dissolve parliament at will, is now a mere figurehead acting as a symbol of state unity.

By the summer of 1951 the western nations considered the time ripe for a peace treaty with Japan. It was signed in San Francisco on September 8, 1951, by forty-eight non-Communist nations. The following are the main conditions:

1. Japan was given recognition as an independent nation. The state of war between Japan and the signing powers was ended.

2. Japan gave up claims to Korea and recognized its independence. She also gave up claims to the Pescadores and Formosa, to lower Sakhalin, the Kurile Islands, the Paracel Islands, and the Pacific Islands which are presently under the trusteeship of the United Nations. Japan also accepts U.N. trusteeship of the Okinawa (Ryukyu) Islands, the Volcano Islands, the Bonins, the Parace Vela, and the Marcus Islands.

3. Japan pledged herself to give full support to the principles of the U.N. She also undertook to settle future differences through negotiation.

4. The Allies promised to withdraw all occupation forces not later than ninety days after the treaty was signed.

5. No heavy reparations payments were stipulated in the treaty, although compensation from Japan for destruction during the war may be demanded in some cases.

6. Japan was given permission to allow foreign troops in the country. This condition makes it possible for the United States to continue using military bases in Japan.

7. Japan is allowed to establish an army for defence purposes.

8. If there are differences of opinion as to the interpretation of certain parts of the treaty, the matter is to be handed over to the International Court of Justice for a ruling.

Upon the signing of the treaty Premier Yoshida promised: "The Japan of today is no longer the Japan of yesterday. We will not fail your expectations of us as a new nation dedicated to peace, democracy, and freedom."

THE WESTERN UNION

On March 17th, 1948, the Governments of Belgium, France, Luxembourg, the Netherlands and the United Kingdom signed the Five Power Treaty of Brussels. This is a development of fundamental importance in the history of Europe, for the Treaty is the core of the Western Union. The general aim of the Treaty is to preserve by united action in every field the common democratic heritage of the five countries. The Treaty is valid for 50 years and is open to the accession of other like-minded European states.

In its first three Articles, the Treaty provides for united action in the economic, social and cultural domains. Economic policies will be more closely co-ordinated, combined efforts will be made to improve social conditions, notably by raising the standard of living, and cultural exchanges will be intensified.

It is laid down in the Treaty that the economic co-operation envisaged shall not duplicate or prejudice but shall assist the work of other bodies such as the United Nations Economic Commission for Europe.

The five Governments have further agreed to unite in collective self-defence against any attack on the European territory of any one of them. This mutual military aid in collective self-defence is provided in Article 4 and is based on Article 51 of the United Nations Charter. Article 51 upholds the right of individual or collective self-defence if an armed attack occurs against a member of the United Nations until the Security Council has taken the measures necessary to maintain international peace and security.

The five Governments will set up a Consultative Council which can function continuously and is liable to be summoned immediately at any time.

Whereas there will be automatic collective self-defence action to meet aggression against the territory of any of the signatories in Europe, the Treaty provides for immediate consultation with regard to any situation which may constitute a threat to peace in whatever area this threat may arise. It therefore embraces the overseas territories of the signatories which are not covered under Article 4.

The following are the purposes of the Treaty as defined in the Preamble, which shows the identity of the Treaty with the purposes of the United Nations Charter.

“To re-affirm their faith in fundamental human rights in the dignity and worth of the human person and in the other ideals proclaimed in the Charter of the United Nations; to fortify and preserve the principles of democracy, personal freedom and political liberty, the constitutional traditions and rule of law which are their common heritage; to strengthen with these aims in view the economic, social and cultural ties by which they are already united; to co-operate locally and to co-ordinate their efforts to create in Western Europe a firm basis for European recovery; to afford assistance to each other in accordance with the Charter of the United Nations in maintaining international peace and security and in resisting any policy of aggression; to associate progressively in pursuance of these aims other states inspired by the same ideals and animated by a like determination.”

THE NORTH ATLANTIC TREATY

At Washington on April 4, 1949, the representatives of twelve nations signed the North Atlantic Treaty. The twelve nations were: Belgium, Canada, France, Luxembourg, Netherlands, Norway, United Kingdom, United States, Denmark, Iceland, Italy, Portugal. By the terms of this Treaty the lot of Canada and her people is linked with that of the western democracies of Europe and the United States. This pact does not represent any new departure in Canadian foreign policy. For many years the peoples of Canada, Britain and the United States have shared a firm belief in democracy, and their dealings with each other in peace and war have been founded on democratic principles. They are now drawn together even more closely by the growing threat of communism. This Treaty demonstrated to the rest of the world the determination of these twelve nations to work together for peace and to defend each other against armed attack. As a military alliance the North Atlantic Treaty has a special meaning and a responsibility for every Canadian citizen.

The Purpose of the Treaty

The purpose of the Treaty is to create an atmosphere of security in which the nations may work together in the removal of the causes of war and the establishment of stability and security. In other words, the aims of the Treaty are the same as those contained in the charter of the United Nations, and it is the hope of the signatory countries that the Treaty will strengthen the work of the United Nations.

The Need for Security

It is clear that the United Nations has not yet succeeded in establishing the “international peace and security” that many hoped it would. Discord and suspicion mark the conferences of the Big Four Powers and the use of the veto clogs the wheels of the United Nation’s machinery for peace.

The Soviet Union has expanded her territory in Western Europe at the expense of her neighbors and has surrounded herself with satellites whose governments are directed by the Kremlin. Closely knit by treaties and military alliances, the Soviet Union and her satellites present a formidable union, possessing vast man-power and industrial resources. From this vast stronghold of communism a strong political influence is

flowing into the far east. China has been overcome by communist forces, and communist-inspired uprisings against the established government are stirring up strife in Burma, Indo-China and Malaya.

The rising tide of communism which is hostile to the ideals of liberty and democracy led first to the formation of the Western Union in 1948, composed of Britain, France and Benelux countries, and has since been expanded to include the United States, Canada and the other signatory countries under the North Atlantic Treaty. The community of twelve states bound by the Treaty presents a united front and a collective capacity of resistance to the rising flood of Russian influence. At the ceremonial signing of the Treaty at Washington, Mr. Pearson, Canada's Minister of External Affairs, summed up the meaning of the Treaty in these words: "The North Atlantic Treaty was born out of fear and frustration; fear of the aggressive and subversive policies of communism and the effect of those policies on our own peace and security and well-being; frustration over the obstinate obstruction by communist states of our effort to make the United Nations function effectively as a universal security system. This treaty, though born of fear and frustration, must, however, lead to positive social, economic and political achievements if it is to live; achievements which will extend beyond the time of emergency which gave it birth, or the geographical area which it now includes."

The Background of the Treaty

Treaties of the magnitude of the North Atlantic Treaty are not "thought up" and signed overnight. Behind them are years of moving political, economic and social events, diplomatic activity, unforeseen occurrences, public statements by political leaders. All of these pose problems or seek solutions, the overall solution being finally embodied in a treaty or agreement signed after months of careful discussion in the parliaments and cabinet meetings of the countries concerned. The following brief survey of the circumstances leading up to the signing of the Treaty will give perspective to the Washington ceremony of April 4th, 1949.

At Potsdam in 1945 the Big Three Powers (Britain, U.S. and USSR) signed a declaration by which peace was to be restored to the world. This agreement provided for the making of peace treaties for Germany's allies, the occupation of Germany by the Four Big Powers, the denazification of Germany and the trial of war criminals. But the confidence and cordiality that surrounded the declaration soon waned. The Soviet Union drew the Eastern European countries into a communist bloc which cut itself off from the rest of the world by an "iron curtain". In the council of the foreign ministers and in the United Nations there was little or no agreement between the Western democracies and the Soviet Union and her satellites.

To halt the spread of communism, Mr. Truman urged the government of the United States to send aid to countries such as Greece who were in danger of communist uprisings to overthrow the national government. This policy became known as the Truman Doctrine.

Canada gave her support to the United States by reaffirming in 1947 the Ogdensburg Agreement of 1940 which brought into being the Permanent Joint Board of Defence, thereby indicating to the rest of the world the firm friendship between the two countries.

The germ of the Atlantic Treaty was contained in the speech delivered by Mr. Churchill at Fulton, Missouri, in 1946 in which he recommended the "fraternal association" of Britain and the United States in a military alliance for their mutual defence. The war had not been over for less than a year and European commitments were not popular in America at that time.

Political problems were not the only cloud in the sky. The dark clouds of an economic crisis rolled up over Europe. The efforts of the war-torn countries to restore their peacetime economies proved inadequate. Marshall, Secretary of State for the United States, saw the solution in a generous, long-term aid plan by which the United States would supply to needy nations food and other essential products until they were on their feet again. The Marshall Plan took shape in the European Recovery Program. Sixteen European countries welcomed this aid but the Soviet Union rejected the Program and forbade her satellites to participate in it. The breach between the Soviet block and the Western powers was now even more clearly defined.

Events in occupied Germany where the Western powers and the Soviet Union were in close contact with each other served only to widen the breach between the East and West. The eastern zone of Germany was exploited politically and economically and cut off from the rest of Germany. The three Western zones have been drawn together to form a Western German state for which a constitution has been drawn up. The joint occupation of Berlin produced difficulties which led up to the Russian blockade of Berlin countered by the determined air lift by Britain and the United States.

In 1948 Belgium, Luxembourg, the Netherlands, France and the United Kingdom sought security in the face of the growing crisis in Europe, in the Five Power Treaty signed at Brussels and generally referred to as the Western Union. The treaty provided for collective self-defence and for a more closely co-ordinated economic policy. This union had been heralded two years previously by Churchill in a speech at Zurich, Switzerland, in which he declared that "we must recreate the European family in a regional structure, called, it may be, the United States of Europe." It should be noted that the countries of the Americas had established a regional security system in the Rio Pact signed by the American Republics in September 1947, which provided for joint action against any state that attacked an American state.

The Western Union was received by Canadian and American government officials as a wise move by the Western European powers. Mackenzie King supported it in these words: "The peoples of all free countries may be assured that Canada will play her full part in every movement to give substance to the conception of an effective system of collective security by the development of regional pacts under the Charter of the United Nations." The President of the United States, Mr. Truman, said this: "I am sure that the determination of the free countries of Europe to protect themselves will be matched by an equal determination on our part to help them to do so." Within a few months meetings were taking place between representatives of the Western Union and Canada and the United States. These discussions together with debates in parliament resulted in the signing of the North Atlantic Treaty in Washington in April 1949.

THE TEXT OF THE NORTH ATLANTIC TREATY

“The Parties of this Treaty reaffirm their faith in the purposes and principles of the Charter of the United Nations and their desire to live in peace with all peoples and all governments.

They are determined to safeguard the freedom, common heritage and civilization of their peoples, founded on the principles of democracy, individual liberty and the rule of law.

They seek to promote stability and well-being in the North Atlantic area.

They are resolved to unite their efforts for collective defence and for the preservation of peace and security.

They therefore agree to this North Atlantic Treaty:

Article 1

The Parties undertake, as set forth in the Charter of the United Nations, to settle any international disputes in which they may be involved by peaceful means in such a manner that international peace and security, and justice, are not endangered, and to refrain in their international relations from the threat or use of force in any manner inconsistent with the purpose of the United Nations.

Article 2

The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them.

Article 3

In order more effectively to achieve the objectives of the Treaty, the Parties, separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack.

Article 4

The Parties will consult together whenever, in the opinion of any of them, the territorial integrity, political independence or security of any of the Parties is threatened.

Article 5

The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all; and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of the individual or collective self-defence recognized by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.

Any such armed attack and all measures taken as a result thereof shall immediately be reported to the Security Council. Such measures

shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security.

Article 6

For the purpose of Article 5 an armed attack on one or more of the parties is deemed to include an armed attack on the territory of any of the Parties in Europe or North America, on the Algerian departments of France, on the occupation forces of any Party in Europe, on the islands under the jurisdiction of any Party in the North Atlantic area north of the Tropic of Cancer or on the vessels or aircraft in this area of any of the Parties.

Article 7

This Treaty does not affect, and shall not be interpreted as affecting, in any way the rights and obligations under the Charter of the Parties which are members of the United Nations, or the primary responsibility of the Security Council for the maintenance of international peace and security.

Article 8

Each Party declares that none of the international engagements now in force between it and any other of the Parties or any third state is in conflict with the provisions of this Treaty and undertakes not to enter into any international engagement in conflict with this Treaty.

Article 9

The Parties hereby establish a council, on which each of them shall be represented, to consider matters concerning the implementation of this Treaty. The council shall be so organized as to be able to meet promptly at any time. The council shall set up such subsidiary bodies as may be necessary; in particular it shall establish immediately a defence committee which shall recommend measures for the implementation of Articles 3 and 5.

Article 10

The Parties may, by unanimous agreement, invite any other European state in a position to further the principles of this Treaty and to contribute to the security of the North Atlantic area to accede to this Treaty. Any state so invited may become a Party to the Treaty by depositing its instrument of accession with the Government of the United States of America. The Government of the United States of America will inform each of the Parties of the deposit of each such instrument of accession.

Article 11

This Treaty shall be ratified and its provisions carried out by the Parties in accordance with their respective constitutional processes. The instruments of ratification shall be deposited as soon as possible with the Government of the United States of America, which will notify all the other signatories of each deposit. The Treaty shall enter into force between the states which have ratified it as soon as the ratifications of the majority of the signatories, including the ratifications of Belgium, Canada, France, Luxembourg, the Netherlands, the United Kingdom and the United States, have been deposited and shall come into effect

with respect to other states on the date of the deposit of their ratifications.

Article 12

After the Treaty has been in force for ten years, or at any time thereafter, the Parties shall, if any of them so requests, consult together for the purpose of reviewing the Treaty, having regard for the factors then affecting peace and security in the North Atlantic area, including the development of universal as well as regional arrangements under the Charter of the United Nations for the maintenance of international peace and security.

Article 13

After the Treaty has been in force for twenty years, any Party may cease to be a party one year after its notice of denunciation has been given to the Government of the United States of America, which will inform the Governments of the other Parties of the deposit of each notice of denunciation.

Article 14

This Treaty, of which the English and French texts are equally authentic, shall be deposited in the archives of the Government of the United States of America. Duly certified copies thereof will be transmitted by that Government to the Governments of the other signatories.

In witness whereof, the undersigned plenipotentiaries have signed this Treaty. Done at Washington, the 4th day of April, 1949."

Comment—Pro and Con

In a discussion of such a decisive step in Canadian history as the signing of the North Atlantic Treaty, student opinion will doubtless be strongly influenced by public opinion and the government viewpoint. But these should not replace a critical examination of the text of the Treaty and an attempt to reach a conclusion on the part on the student. (Do not attempt to memorize the text of the Treaty.) To provoke the discussion of the pros and cons of the Treaty the following brief commentary is added.

The background of events leading up to the signing of the Treaty seems to indicate that it was the best means of obtaining the sense of security so necessary to the recovery of Europe. Those who disagree with this view point out that the money spent in rearming Europe might be spent to better advantage in restoring peacetime production. They argue further that security cannot be established so long as large standing armies occupy Europe. Their solution is further negotiations with the U.S.S.R.

The heart of the Treaty is in Article 5. There it is agreed that an armed attack against one or more shall be considered an attack against them all, but each member is to take the measures it considers proper. This enables the governments of each country to exercise the right of declaring war. Critics feel that this provision seriously weakens the pact.

The Treaty is generally considered to be in harmony with the Charter of the United Nations. In fact Articles 51 and 52 of the Charter are quoted in support of the Treaty. But international law experts also contend that a series of regional pacts such as the Rio Pact and the

North Atlantic Treaty might eventually overshadow the universal character and aims of the United Nations.

Some Canadian critics are willing to accept the Atlantic Treaty as a temporary means of checking Soviet expansion and gaining some security for a short time but refuse to acknowledge it as a means of establishing a lasting world peace.

SEVENTH MEETING OF THE NATO COUNCIL

The Council of the North Atlantic Treaty Organization opened its deliberations at Ottawa on September 15, 1951. The Council is the top operating body of N.A.T.O., history's greatest peace-time collective security. Hon. Paul Van Zeeland, Belgium's foreign minister who is chairman of the Council, opened the conference with a grim warning that "the critical moment is approaching at which the scales of fate will turn irrevocably towards war or peace." He said all 12 members of the N.A.T.O. alliance are deeply conscious of the imminence of danger.

The Ottawa meeting was the "seventh council meeting and the largest. For the first time the finance ministers joined the foreign and defense ministers, thus emphasizing the inter-connection of the political, economic, and military problems."

The Results:

1. The Council formally recommended the admission of Greece and Turkey into full and equal membership. (This requires the approval of the legislatures of the 12 N.A.T.O. countries and extension by the treaty of the territory N.A.T.O. will defend to include Greece and Turkey before the invitations go out);
2. The Council set up a 12-man super deputies board. This board is to give two months' study to the over-all military requirements of N.A.T.O. and the capabilities of its individual members;
3. The Council asked Gen. Eisenhower as N.A.T.O.'s supreme commander in Europe to make a study of the various member-nations' rearmament efforts. He was invited to report on this at the Rome meeting on October 29;
4. The Council approved of the Atlantic Pact powers developing long range co-operation in non-military fields. A five-power committee of the smaller members was named to find how it could be done. Canada was named to this important committee;
5. The Council agreed to hold more frequent meetings—at intervals possibly of three or four months;
6. The Council adopted the reports of such groups as N.A.T.O.'s defense production board, finance and economic board, and military standing committee; and
7. The Council called its next meeting for October 29 in Rome unless the British elections scheduled for Oct. 25 should cause delay.

THE UNITED NATIONS

At the San Francisco Conference in April, 1945, where the charter of the United Nations was drawn up, Mr. Mackenzie King, representing the Canadian people, said: "The opportunity is given to this Conference to forge and fashion from those fires of war an instrument for world security. In the execution of this great task, there should be no avoidable delay. It is ours today to give to grief-stricken humanity a hope of which it is in greater need today than it has ever been before. It is ours to help to bring into being a world community in which social security and human welfare will become a part of the inheritance of mankind." From the signing of the United Nations Charter by Mr. Mackenzie King and Mr. St. Laurent in 1945 until the present, Canadian representatives have played an active role on many of the United Nations committees.

Canadian representatives were on the Preparatory Committee which worked out the details of the present machinery of the United Nations. Canada was elected to the Economic and Social Council, and was represented on six of the seven main committees of this council. On the Political and Security Committee Canada had several of her most able men, who made important contributions to the discussion of the problems of atomic energy. General McNaughton, as Canada's delegate to the Atomic Energy Commission, played a leading role in framing the policy of the Western Democracies on the control of atomic energy. Canadian research work at Chalk River and our large resources of uranium give prominence to Canada's contributions in this field.

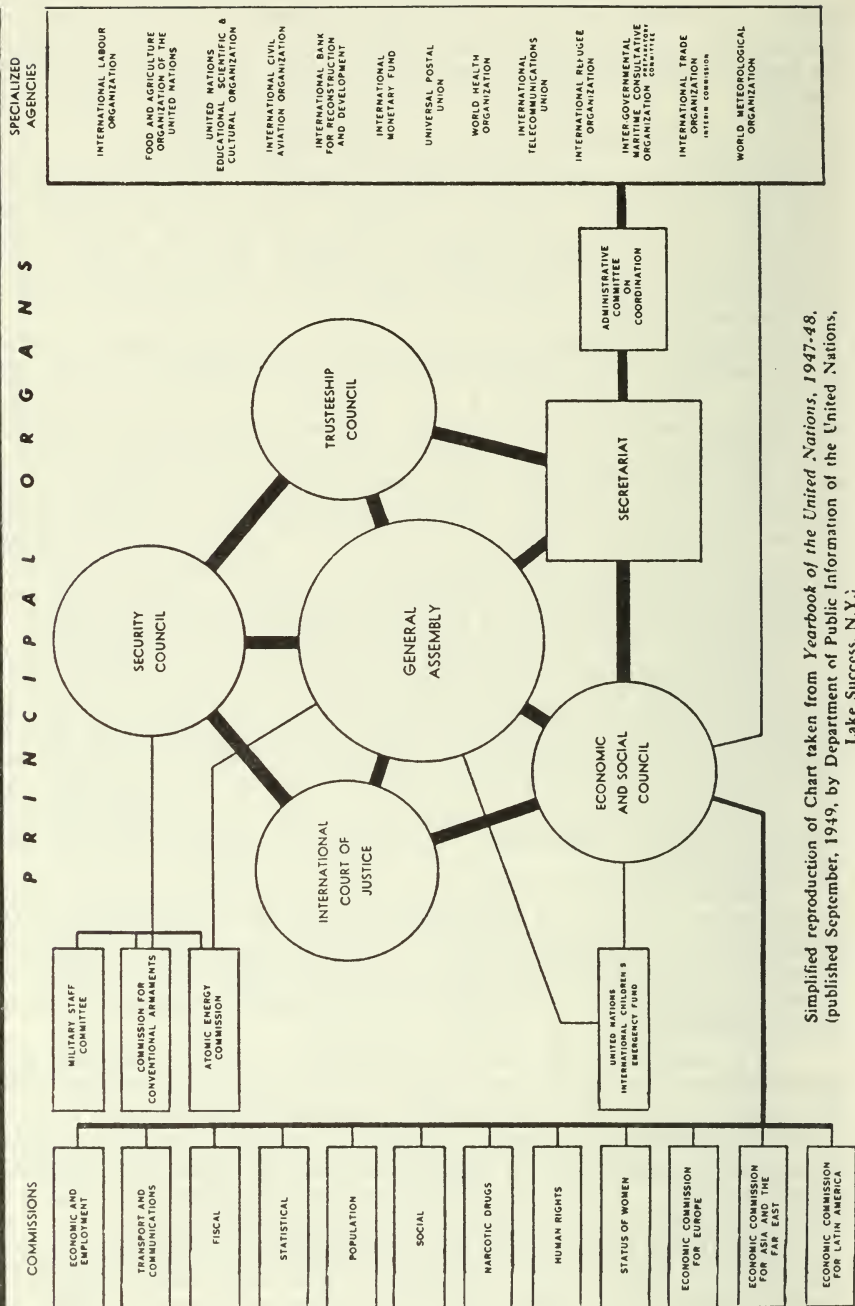
Canadian representatives on the Economic and Financial Committee gave full support to the extension of the work of UNRRA. In fact, Canada was the third largest contributor to the United Nations International Children's Emergency Fund (UNICEF) which has sent large supplies of food and clothing to children in many parts of the world, who have been rendered homeless by recent wars or other disasters. Two good examples are the assistance to Palestine refugees during the war in Palestine (1948-1949) and to the victims of the earthquake in Ecuador in 1949.

Canada has been a strong supporter of the International Refugee Organization (IRO), the UN agency set up to deal with the problems of refugees and displaced persons. Not only has Canada donated large sums of money for this work, but our country has received many thousands of displaced persons, and has assisted them in setting up new homes here.

At a meeting of the General Assembly in 1947, Hon. Paul Martin, speaking for Canada on the subject of world food shortages, pledged his country to do all in its power to relieve the distress in Europe by extending credit to countries unable to pay for Canadian wheat, by speeding up transportation and delivery and by increasing, if possible, wheat exports. It was stated that Canada had, since 1944, exported a million bushels of wheat each working day of the year.

Both in the setting up of the United Nations Educational, Scientific and Cultural Organization (UNESCO) and in the committee work at the Paris Conference in 1946, Canadian representatives, amongst whom were Dr. R. C. Wallace and Dr. G. F. McNally, have made significant contributions.

ORGANS OF THE UNITED NATIONS



Simplified reproduction of Chart taken from *Yearbook of the United Nations, 1947-48*, (published September, 1949, by Department of Public Information of the United Nations, Lake Success, N.Y.)

For the first time since the International Court of Justice was set up under the League of Nations, Canada is now represented. Judge John E. Read holds this appointment.

Canada assumed an important position among the nations when elected to a seat on the Security Council of the United Nations in September 1947. The Security Council, composed of representatives of the Five Big Powers (Great Britain, United States, Soviet Union, France and China) and six non-permanent members elected for a two-year term, is the most powerful international organization. Membership on the Security Council not only gave Canada the opportunity to express her own views on world affairs, but also made her a representative of the 49 countries of the UN on the Council. Mr. L. B. Pearson, now Secretary of State for External Affairs, was Canada's representative on the Security Council. Although no one doubted the ability of Canada's representatives to acquit themselves honorably in the Security Council, nevertheless those who had followed the very short career of Canada in the world of international affairs regarded this appointment as a formidable challenge to the government and the people of Canada. Observers pointed out that Canadian delegates to the UN must have the backing of the people they represent. One commentator wrote: "What is needed here is a twofold awakening: members of Parliament must arouse public interest in foreign affairs and the people of Canada must in turn demand of Parliament informed and careful guidance of their thinking."

In general, it may be said that Canada's participation in the work of the United Nations so far has been through quiet discussion in committees by capable, well-informed men whose sincerity, sound judgment and advice have won the approval of all member nations.

RESPONSIBLE GOVERNMENT

Towards Self Government in Britain

Four Periods:

William Pitt, one of England's great prime ministers, once referred to those three great statutes, The Magna Carta, The Petition of Right and The Bill of Rights as "The Bible of the English Constitution." If we make ourselves familiar with the ideas contained in these documents, the circumstances under which they were framed and the benefits derived from them by the nation, we shall have touched on the main events leading to responsible government down to the eighteenth century.

The Magna Carta:

It was the tyrannical King John whose ill deeds had won for him the hatred of every class in England who was forced by armed barons to sign the Magna Carta at Runnymede in 1215. England, up to this point, had been ruled by the king and his council of advisers and supporters, during which period laws had been passed and customs established by common practice which, to a limited extent, protected the lives and property of the people. The feudal laws of England gave the king wide powers over his subjects, but King John, not content with his rightful power, openly defied all laws protecting the ancient rights of his people. It is to Stephen Langdon, Archbishop of Canterbury, who stood out against the misrule of John, that we are chiefly indebted for the drawing up of the Magna Carta. Into the charter Langdon wrote the good laws of Edward the Confessor which had been embodied in the Charter of Henry I. The Magna Carta was, therefore, a ratification of the privileges and liberties of the English rather than a new law limiting the power of the king. The document contains sixty-three sections, selections from which are given below to indicate the importance of the Magna Carta to the British constitution.

1. "That the English Church shall be free."
12. "No scutage or aid (taxes) shall be imposed in our kingdom unless by common council thereof."
14. "And for obtaining the common council of the kingdom concerning the assessment of aids other than the three cases aforesaid or of scutage, we will cause to be summoned, severally by our letters, the Archbishops, Bishops, Abbots, Earls and Great Barons; and in addition We will also cause to be summoned, generally, by our sheriffs and bailiffs, all those of Us who hold in chief to meet at a certain day . . . business shall proceed . . . according to the advice of those present."
39. "No freeman shall be taken, imprisoned, disseised (property sold), outlawed, banished, or in any way destroyed, nor will We proceed against or prosecute him except by lawful judgment of his peers or the law of the land."
45. "To no one will We sell, to none will We deny or defer right of justice."

The language (a translation from Latin), may be quaint, but the meaning as applied to the principles of our constitution are clear. They are:

1. The government of the country by an hereditary sovereign with limited powers, who is bound to summon and consult a parliament of hereditary peers and representatives of the commons.

2. No tax of any kind to be imposed, and no law made, replaced or altered without the sanction of parliament.

3. No man to be arbitrarily fined or imprisoned, and no man to be punished except after a lawful trial.

4. Trial by jury.

5. Justice shall not be sold or delayed.

Representative Government

Fifty years after John signed the Magna Carta, the nobles backed by the common people were again resisting royal tyranny. The leader on this occasion was Simon de Montfort who, having defeated the army of Henry III at Lewes, summoned parliament in 1265, consisting of two knights from each shire, two citizens from each city and two burgesses from each borough. This was the foundation of the Model Parliament (so called because at this time the custom of having Parliament organized on the two-chamber plan—House of Lords and House of Commons—began), called together by Edward I in 1295; and from that date representatives of the people have been associated with the task of government.

The Rule of the Tudors

When Henry VII, the first of the Tudor monarchs, came to the throne in 1485 the country was weary from civil war and anarchy. What the people of England wanted most was a firm hand to quell the quarrelsome nobles who had kept their country in a turmoil for years. For peace and order they were willing to sacrifice some of the privileges and rights which they had demanded of John. The Tudors were quick to sense this attitude. Hence, while they preserved the outward appearance of government by discussion, duly calling sessions of Parliament and presumably listening to the voice of the people, actually they ruled according to their own wishes. But this autocracy was clothed with shrewdness and tact, and their subjects accepted the rule of their sovereigns without much questioning. It was only during the later years of Elizabeth's reign that the mood of Parliament changed. By this time England had had a century of Tudor rule, a century of tranquility and discipline. The conditions under which the people lived had improved with the development of England's foreign trade. A group of competent men had been educated in the ways of government through service in their local districts. England was now a strong nation. Elizabeth, therefore, had to use her power with discretion during the latter part of her reign.

The Petition of Right

The Stuart kings who followed Elizabeth ascended the throne in the belief that they were appointed by God and were answerable to Him alone—the Divine Right theory of kingship. This theory of absolute power was unacceptable to the English people who had become accustomed to the king working with Parliament. The clash between King and Parliament was inevitable. Standing by its constitutional power against the absolute power of the king, Parliament presented to

Charles I for his signature, a Bill called the Petition of Right (1628). The Petition refers to the ancient rights of the people established by the Magna Carta and having outlined the grievance of the people against the King, Parliament asked the King to act constitutionally in these words:

“They do therefore humbly pray your most excellent Majesty that no man hereafter be compelled to make or yield any gift, loan, benevolence, tax or such like charge, without the common consent by act of parliament; and that none be called to make answer, or take such oath, or give attendance or be confined or otherwise molested or disquieted concerning the same or for refusal thereof; and that as freemen, in any such manner as is before mentioned be imprisoned or detained; and that your Majesty would be pleased to remove the said soldiers and mariners, and that your people may not be so burdened in time to come; and that the aforesaid commissions, for proceeding to martial law, may be revoked and annulled; and that hereafter no commissions of like nature may issue forth to any person or persons whatsoever to be executed as aforesaid lest by colour of them any of your Majesty’s subjects be destroyed or put to death contrary to the laws and practice of the land.” Charles did not sign the Petition but continued to rule, choosing such favorites for his advisers as he thought fit. These men, enjoying royal confidence, administered the affairs of the nation in a manner which angered Parliament. Charles on the one hand insisted that his ministers were fulfilling the will of the King and that their actions were therefore not to be questioned, while members of Parliament on the other hand contended that the King’s ministers were responsible to Parliament for their deeds and should continue in office only as long as they complied with the wishes of the representatives.

The situation grew increasingly tense. Charles could not accept the theories of the members of parliament without forfeiting all claim to the Divine Right of Kingship. Parliament would not bow to autocratic government. The stage was finally reached at which such an issue could not be decided by discussion, and resort to arms brought a civil war. The royalist army was defeated and Charles was tried and condemned to death. For ten years England was without a monarch. During this period, Cromwell, who had led the victorious armies of the parliamentarians, ruled as Lord Protector. Cromwell never considered himself responsible to parliament for his actions; in fact he tried to make parliament responsible to his will. His troubled rule ended with his death in 1658 and less than two years later England welcomed the successor to the throne, Charles II.

Charles II returned to England as King knowing full well what an aroused Parliament could do. He did not attempt to rob it of its power. The principles laid down in the Petition of Right were never questioned. His brother, James II, who succeeded him was as outspoken as Charles was cautious. Soon England was facing a situation similar to that which had preceded the Civil War. James was flaunting his powers as a divinely-appointed monarch. He was challenging the constitutional rights of Parliament and questioning its chosen religion, the Church of England. Once again violence might have been necessary to save the situation had not James found himself without any

supporters. He therefore took the best course open to him and left the country.

The Bill of Rights

William and Mary succeeded the banished James. The first parliament summoned passed an act which was to provide a third bulwark of English liberty. It was the Bill of Rights (1689). This statute first lists the wrongs of the late King James and then calls upon the new sovereign to acknowledge the ancient rights and liberties of the people regarding the power of parliament to make laws, the keeping of a standing army, the levying of taxes, the election of members of parliament, fair trial, freedom of speech in parliament, petitioning the king. This same Bill made it necessary for the sovereigns of England to become Protestants. It should be noted too that not only did Parliament assert its supremacy over the King but by its invitation to William it also appointed the King. This was the death blow to the Divine Right Theory and a real victory for Parliament.

The Rise of Responsible Government

Up to this point there is only a slight resemblance between a government body such as the Alberta legislative chamber and the government of William and Mary's time. True, the King's personal power had been curtailed, but he still chose his ministers. This group had recently assumed the title of cabinet.

Political parties made their appearance about this time—the Whigs and Tories. William, wishing to fulfil his duties as fairly as possible, chose his ministers from amongst the leading members of both parties. But party differences were too great for them to work harmoniously as an executive body. He was then prevailed upon to select his advisers from the Whig party which had a majority in the Commons at that time. This meant that the ministry would have the support of the Commons as far as party matters were concerned. Thus a bond between cabinet and Commons was forged, but it must be remembered that the King still chose his ministers and acted as chairman at their meetings. It was still the King's cabinet with an ill-defined relationship to the Commons.

George I stayed away from the cabinet meetings because he did not speak English and was unable to follow the discussions. A chairman from the ranks of the cabinet replaced the king. Walpole was the first chairman, a man of ability and ambition who became known as the "Prime Minister". The life of the cabinet now became, with few exceptions, dependent upon a majority in the Commons. When Walpole's party was defeated in the Commons he resigned from his office. The King could not hold him in office.

George III tried to restore the royal control over the cabinet. His foreign policy led him into the difficulties of war with the American Colonies. He was glad to escape from this problem by handing over the reins of government to Pitt, who accepted his position as head of a cabinet, dependent for its authority on Parliament. Responsible government as we understand it today had been established.

The Struggle for Democratic Government

Although the main features of the British Constitution had been sketched in by the end of the eighteenth century, the fact remains that

Parliament was by no means the democratically elected body that represents the people today in the parliaments and legislative assemblies throughout the British Commonwealth. Whom do we see seated in the Alberta legislative chamber? Farmers, lawyers, teachers, business men and doctors. The eighteenth century Parliament and Government were monopolized by the great landowners. The electoral system was a tangle of ancient customs and privileges which gave rise to the corrupt sale of votes, and unequal representation. It was not an uncommon occurrence for a powerful landowner, himself a member of the House of Lords, to nominate several members to the House of Commons. Thus one man was represented in the Commons by several members, whereas each member today represents several thousands of the electorate. Only a small percentage of the people had the privilege of voting. Property ownership was the essential qualification for a vote.

The time was ripe for a change. A great revolution in France had broken the despotic rule of the French kings. A revolt against colonial rule in the American colonies had laid the foundation of a great and powerful republic, the United States of America. The Industrial Revolution was concentrating large numbers of working men in the great industrial cities. These men were to organize themselves into powerful unions in the cause of the humble worker. The period 1830-1928 saw the introduction of a series of Bills which gradually extended the franchise to all persons of twenty-one years.

In 1830 Lord Russell introduced a Reform Bill the purpose of which was to redistribute the seats and to give the industrial cities a better representation in Parliament and to extend the vote to the householders paying a yearly rent of £10. The Bill became law in 1832 after a stormy passage through the Houses of Lords. Many workers were sadly disappointed by this reform which still deprived them of a vote. They drew up a charter in which they stated clearly their demands—universal male suffrage, equal electoral districts, annual parliaments, the payment of M.P.'s, secret ballot, and no property qualification for M.P.'s. The supporters of this charter became known as the Chartists. Their demands were rejected by the Parliament of that day, but a series of Reform Acts in 1867, 1884, 1918 and 1928 gradually brought about the changes which have produced the democratic form of government in operation in Britain and Canada today.

The Struggle for Responsible Government in Canada

Five Periods

There are interesting parallels between the political developments in Britain in the seventeenth century and those in Canada two centuries later. As was to be expected, Canada's struggle for self-government followed closely in the main outlines the conflict in the Mother Country. First it should be remembered that French Canada, up until its conquest in 1760, had known only autocracy. There was no tradition of democracy in the country, simply because government of that nature was completely foreign to seigneur and habitant alike. It must be remembered, too, that the British at the time of Wolfe's victory were under the rule of George III who was determined at the beginning of his reign to restore to the crown many of the powers it had lost in the two previous reigns. The government set up to administer Canada was auto-

cratic. The governors sent out from England to govern the country were members of England's leading families. They believed that an aristocracy such as was virtually ruling England at the time offered the best government to this new colony. Their responsibility was therefore to the British government rather than to the Canadian settlers.

British rule, in spite of its autocratic nature, brought with it the constitutional rights of freedom of speech, trial by jury and assurance against arbitrary imprisonment demanded by the barons at Runnymede and insisted upon by Parliament from Charles I. The independent spirit growing up in the Thirteen Colonies also influenced Canadian life. Nova Scotia had demanded and won a legislative assembly as early as 1758. The influx of the United Empire Loyalists a few years later served to swell the growing demand for greater political independence. But before Canada had attained self-government as we recognize it today she had passed through the following five stages:

- (1) Military government,
- (2) Crown Colony Administration,
- (3) Representative Government,
- (4) Responsible Government,
- (5) Federation.

Military Government 1760-1764

For the brief period between the conquest of French Canada by the British and the signing of the peace treaty at Paris in 1763 by the British and French, Canada was ruled by British military offices assisted by French-Canadian captains of militia. Friendly relations were established between the British soldiers and the Canadians, whose way of life was scarcely disturbed by the new regime. An English military governor had replaced a French military governor. The old laws and customs remained unchanged, administered by French Canadians with little interference from the English. This stage was one of little or no progress on the road to responsible government.

Crown Colony Administration 1764-1791

The Treaty of Paris (1763) transferred Canada to Great Britain, and a Royal Proclamation was issued from London stating the form of government to be established. The Governor, General Murray, was appointed by the King to rule the colony with the assistance of a Council **appointed by himself**. A Legislative Assembly was to be elected in due course. English law now replaced the French law. To the French a Legislative Assembly was as unfamiliar as the English law. They had never had the privilege of electing such an assembly and were seemingly content to be governed by the old autocratic methods.

Within a few years Britain became involved in a quarrel with her New England Colonies, a quarrel which led to American Independence in 1783. Dissatisfaction with British rule was not confined to the New England Colonies. A small group of English settlers in Quebec and Montreal claimed the right to an elected assembly but in the interests of the French who outnumbered them many times their claims were not satisfied. The partial introduction of English law led to some confusion in the French Canadian courts when French customs met English law and authority was divided. An investigation into the situation led

to the recommendation that English criminal law should be enforced but that the French civil laws should be retained. Carleton, who replaced Murray as Governor in 1766, was in full sympathy with the problems of the French Canadians. With trouble brewing in the South, he may well have felt that some concessions should be used to preserve the loyalty of the French Canadians. He succeeded in converting the British government to his point of view with the result that the Quebec Act was passed in 1774. This Act extended the boundaries of Quebec to include Labrador, and territory to the South as far as the Ohio and westward to the Mississippi. Roman Catholics were given freedom of worship. The criminal law of England was to be enforced and the French civil law retained. No Legislative Assembly was provided for. Government was still entrusted to the Governor and a Legislative Council of from seventeen to twenty-three members appointed by the crown. Roman Catholics were allowed to accept seats on this council for the first time. The loyalty of the French-Canadians was secured by this Act but it aroused the anger of the American colonies who resented concessions to the Roman Catholics and the extension of the boundaries of Quebec southward to place part of the American Colonies under the provisions of the Quebec Act.

One year later the American War of Independence began (1775-1781). When it came to an end British colonial possessions in North America had been reduced to Quebec, Nova Scotia, and the Hudson Bay territory. The most immediate result of this war on Canada was the arrival of large numbers of loyalists who could no longer find a home in the independent states. These emigrants settled in Nova Scotia and the western part of Quebec around Lake Ontario and Lake Erie. Those who settled in Nova Scotia enjoyed the same privileges of English law and representative assemblies that they had left behind them in the independent States. But those who came to Quebec found themselves in a country whose laws and government had been established by the Quebec Act to satisfy a large French-Canadian majority. Having grown up in an atmosphere of political freedom they could not be expected to accept the colonial system of government by the Governor and his Council, or the French Civil law. The attempt to set up a form of government that would satisfy the French-Canadians and the Loyalists, separated as they were by language, religion, law and temperament, advanced the political growth of Canada to the third stage of development, representative government.

Representative Government

The solution of this problem was sought in the Constitutional Act passed by the British Parliament in 1791. The Act divided Quebec into two parts, Upper and Lower Canada. A Governor represented the Crown in the Canadian colonies as a whole while in each province there was:

- (1) a Lieutenant-Governor,
- (2) a nominated Council,
- (3) an elected Assembly.

This third element enabled the people to play a small part in the government of their country. By 1791 the elected Assembly in Great Britain, the House of Commons, had assumed control over the King and the House of Lords, and the cabinet was dependent upon the Com-

mons for its authority. Such was not the case in Canada. The Governor was the representative of the Crown. The Council chosen by the Governor or as his advisers, soon restricted its membership to a small group of influential families. In Upper Canada it was known as the Family Compact, in Lower Canada the Chateau Clique. Although the Legislative Assembly had the right to make laws and the right to vote money for government purposes, nevertheless it had no means of forcing the Governor and the Council to consent to its bills. In fact the Governor and the Council could conduct the affairs of the country to their own satisfaction without the Assembly. Representative government without effective control over the executive actually gave the people little more control over their government than they had had under the old colonial system.

In the fight for responsible government the names of three great champions of reform stand out. They are Joseph Howe, W. L. Mackenzie and Joseph Papineau. The details of this struggle which led to open rebellion need not detain us here. In Nova Scotia and Upper and Lower Canada the people had a common grievance against the small privileged group who filled the seats of the Council and ran the country to suit their own ends. In Lower Canada there was in addition a racial problem in that the Governor and his Executive Council were English, while the majority of the Legislative Assembly was French. Open hostilities against the government led the British Government to dispatch Lord Durham to Canada as Governor-in-Chief with the authority to restore order, to investigate the reason for disorder and to make suggestions for the future government of the country. Durham saw the solution to Canada's problem in responsible government.

Responsible Government

Lord Durham spent five months in the Canadas, travelling the country and studying carefully the complicated political problems of the people. He gathered a vast amount of material and reached some accurate conclusions before being recalled to England. On his return he published his Report which is looked upon as the Magna Carta of self-government for the British Colonial empire. This report gave rise to the Act of Union of 1840 which united the two Canadas and provided for a parliament of two chambers, a Legislative Council of not less than twenty persons nominated by the Crown for life, and an elected House or Assembly. No mention was made of responsible government, but the way was clear for its introduction when the people of Canada were ready to put it into practice.

Today the main working principles of responsible government are clear enough to the layman. It has become, after a hundred years of experience, a familiar part of our constitution. This was not the case in 1841 when the first parliament of United Canada met at Kingston. The idea of a Governor and his Council subordinate to the Assembly seemed to many to dissolve all ties with the Mother Country. One serious drawback to the successful working of the cabinet system as it had developed in Britain was the lack of organized political parties. Lord Sydenham, the first Governor under the new constitution of the Act of Union, found the Assembly split into half a dozen partially organized parties. He undertook the task of instructing the new Assembly in the methods of responsible government, himself acting as both

Governor and Prime Minister. Members of the Executive Council were chosen by Sydenham, who, he hoped, would have support of the Assembly much as the Prime Minister selects his cabinet today. This was a step in the direction of responsible government but it was by no means its real and full achievement. On Sydenham's first Executive Council were men whose opinions differed on the question of responsible government. One who clearly understood the principles of cabinet government and who was determined to have a fully responsible Council was Baldwin. He asked Sydenham to form a Council of men who would support him. This Sydenham refused to do, and Baldwin resigned. While the Governor could not ignore the wishes of the Assembly in making up his Council he could and did use his personal influence to persuade the Assembly to support those he had chosen.

Sir Charles Bagot who replaced Lord Sydenham in 1842 accepted the principles of responsible government and formed a ministry of those men who had the confidence of the Assembly. He admitted to his Council La Fontaine and his associates, giving the French-Canadians recognition which Sydenham had denied them. La Fontaine, leader of the majority in the Assembly, insisted on including in the Council his colleagues of the Reform party. For the first time Canada had an executive council chosen by the leader of the political party with a majority in the Assembly rather than by the Governor. Although Bagot's action had the support of Durham's recommendations the British government did not approve the Governor's surrender of power and his successor, Lord Metcalfe, returned to Sydenham's method of selecting his Council. In fact he took an active part in the election campaign of 1864, appealing for the people's support for the party which he sponsored.

Metcalfe died prematurely. The new Governor was Lord Elgin. A change of government in Great Britain brought also a change of attitude towards government in Canada. Elgin came to Canada with orders to put into effect the policy recommended by the Durham Report. He was instructed "to act generally on the advice of the Executive Council and to receive as members of that body those persons who might be pointed out to him or entitled to be so by their possessing the confidence of the Assembly." The dangers and difficulties involved in following this policy are well illustrated by the passing of the Rebellion Losses Bill. The legislature passed by a large majority this Bill appropriating a sum of money which was to be paid to citizens, some of them French in Lower Canada, for losses sustained at the hands of the loyal party during the rebellion ten years earlier. Opponents of the Bill raised the cry that this was simply voting a reward for rebellion. They even appealed to the British Colonial Office in London to stop the Bill. The decision, however, was left to Lord Elgin. He realized that it was not a question as to whether he approved or disapproved of the legislature or whether rebels might be compensated for the losses incurred by the rebellion. The people, through their representatives and their executive, had made known their will. By a large majority they had approved the Bill. The minority might refer to him contemptuously as a figurehead for his refusal to oppose the people's decision; nevertheless for him the path of duty seemed clear. So it was that on April 25, 1849, Elgin signed the Rebellion Losses Bill. As he emerged from Parliament he

was pelted with rotten eggs and stones by an angry mob. As the day wore on the hostility of the defeated minority steadily mounted. That night a gang rushed into the Parliament Buildings, drove out the members and set fire to the building. Five days later Elgin narrowly escaped death when a barrage of stones hit the frail walls of his carriage. But throughout these noisy demonstrations he maintained his position calmly and steadfastly. By the end of the year responsible government was an accepted principle in Canada. The acid test of responsible government was to be found in the changing of the Council when it had lost the confidence of the Assembly. This test was applied in Nova Scotia, Canada and New Brunswick in 1848, and in each case the Council, having lost the backing of the Assembly, resigned. British Columbia achieved responsible government in 1870 and the three Prairie Provinces started their careers with a responsible cabinet. With the establishment of responsible government in Canada, Nova Scotia, New Brunswick and Prince Edward Island, the stage was set for Confederation, the fourth stage of growth in Canada's political life.

Confederation

A new era was opening for Canada in the 1850's. The individual colonies began to feel themselves part of a larger unity. They saw their future not in isolated provinces but as members of a great country extending from sea to sea. The vision was not an idealist's dream. Poor economic conditions obliged Prince Edward Island, Nova Scotia and New Brunswick to consider the possibilities of a maritime union. Even more urgent immediate causes stirred Canada to this point of view. The combined French-English colony saw itself menaced by the alarming growth of the military power of the American States across the line. With the outbreak of the American Civil War in 1861 this threat became serious, particularly when a storm of resentment against all things English was aroused in the Northern States by a series of unfortunate incidents which almost involved the Mother Country in war with the North. Within the colony of Canada political life was at a standstill, brought to a halt by the issue of Representation by Population. Although the Act of Union found the French-Canadians in the majority they were given equal representation with the English settlers of Upper Canada. Ten years later the figures were reversed and Upper Canada began to make their claims for Representation by Population but they were not able to form a government strong enough to enforce these views. The question was whether the French-Canadians in the Assembly would be outnumbered by a larger representation of the growing population in Upper Canada or be guaranteed the numerical majority they had secured by the Act of Union. Clearly, the provisions of the Act had been outdated; the colony's leaders were convinced of the necessity of moving towards a larger unity to break the deadlock. Confederation seemed to be the answer.

The plan was launched at the Charlottetown Conference of 1864. Within two years Confederation had been almost wrecked by the emergence of strong isolationist tendencies in the various legislatures. And then a band of armed marauders, the Fenians, invaded Canada from the south and for a time threatened the independence of Canada. The invasion was accompanied by belligerent anti-British editorials in several American newspapers. Canadians suddenly realized the neces-

sity for unity. The activities of a small band of undisciplined raiders had proved more conclusive than months of debate. By March, 1867, the British North America Act had been passed by the British Parliament; Nova Scotia, New Brunswick, Quebec and Ontario had been linked together in a federal union. The other provinces were to follow as the Dominion took shape.

Profiting by the mistakes and weaknesses of the constitution of the United States, the Fathers of Confederation supported and eventually won for the new Dominion of Canada a strong central government.

THE DOMINION OF CANADA

The government of Canada following the passing of the British North America Act consisted of the following elements, most of which we may recognize both in name and function as parts of the previous constitutions.

(1)—The Governor-General

The Governor-General is appointed by the King in consultation with the Prime Minister for a period of usually five years, to represent the King. He is guided in this office by the advice of the Executive Council. His chief function and duties are:

- (a) To ensure that there is at all times a Prime Minister and a responsible Cabinet in office.
- (b) To serve as mediator, if required, between party leaders or between Dominion and Provincial officials.
- (c) To act as an unofficial diplomatic agent for Canada.
- (d) To be the social head of Canada and to give leadership in such fields of endeavor as the arts, youth movements, social service, etc. To entertain government officials and important visitors.
- (e) To act as the ceremonial head of the government, opening Parliament and performing many official duties throughout the country.
- (f) To act as an adviser to the Prime Minister and his Cabinet.
- (g) To exercise with caution an undefined reserve of power should the necessity arise.

(2)—The Executive Council

Although all laws are administered in the name of the King, represented by the Governor-General, the real head of Parliament is the Prime Minister who, with that small group of men chosen from the House of Commons or the Senate known as the Cabinet, carries a heavy responsibility and exercises great power. The leader of the majority in the House of Commons picks a minister for each government department and those ministers form the Cabinet. The Cabinet ministers in 1952 are:

Prime Minister and President of the Privy Council.
Minister of Veterans' Affairs.
Minister of Justice and Attorney General.
Minister of Agriculture.
Minister of Trade and Commerce.
Minister of Citizenship and Immigration.
Secretary of State.

Secretary of State for External Affairs.
 Minister of Labor.
 Minister of Public Works.
 Postmaster General.
 Minister of National Defence.
 Minister of Mines and Technical Surveys.
 Minister of Transport.
 Minister of National Health and Welfare.
 Minister of Finance and Receiver-General.
 Minister of National Revenue.
 Minister of Fisheries.
 Minister of Resources and Development.

The chief functions and duties of the Cabinet are: :

- (a) It gives active leadership in forming a national policy for Canada and deals with the national problems.
- (b) Each minister supervises the work of, and is the spokesman for his particular department.
- (c) It carries out a wide variety of executive acts, usually in the name of the Governor-in-Council.
- (d) It controls the order of business, and with the backing of the majority carries a great deal of authority in the House.
- (e) The Prime Minister writes the Speech from the Throne outlining the business of the session.
- (f) It introduces all new legislation affecting public affairs. These are called Public Bills.
- (g) It introduces all measures concerning the raising and spending of money.
- (h) It makes laws by means of orders-in-council. This authority is given to the cabinet by Parliament.
- (i) It may disallow provincial legislation.

(3)—The Legislature

The Legislature is composed of the Senate and the House of Commons.

(1) The Senate.

Senators are appointed for life by the Governor-General on the advice of the Prime Minister. The geographical areas of Ontario, Quebec, the Maritimes and the Western Provinces are each represented by twenty-four members, Newfoundland by six, a total of one hundred and two. Since Confederation the tendency has been to exclude senators from the Cabinet, and today only the government leader in the Senate is a member of the Cabinet as a minister without Portfolio, which means that he is not head of a department.

Although in theory the Senate is an independent legislative body, in practice it exercises this power very sparingly, acting in many respects like the House of Lords whose power has been curtailed by law. This may be accounted for by the fact that it is not an elected body with the backing of the people. Senators can only look for support to the Prime Minister who put them in office.

The builders of our constitution intended the upper house to—

- (a) guard the interests of the provinces,

- (b) act as a brake on rash legislation introduced by the commons,
- (c) revise legislation,
- (d) to represent conservative views and property owners.

The chief functions and duties of the senate are—

- (a) To debate legislation passed by the Commons and to amend, revise or reject as the case may be. (The power to reject is seldom exercised. In the case of a deadlock between the Senate and the House of Commons the latter may with the consent of the British Government appoint additional senators to overcome the deadlock.)
- (b) To form committees of investigation. Because of its minor role the Senate has often been condemned by some as an unnecessary body and therefore should be abolished. Others would introduce such reforms as membership by election by the people, limited terms of office, retirement at a certain age (the majority of the senators are over 65 years old, and some are over 80 years old), limiting the powers of the Senate by statute to the same degree as that of the House of Lords.

(2) The House of Commons.

The House of Commons is the representative element in our government. Until the 1946 amendment to the British North America Act, representation was regulated by the population of Quebec whose representation was fixed at 65. The total number of representatives and the number of representatives for each province might vary after each census. Charts showing the representation in the House of Commons by provinces are to be found in any edition of the Canada Year Book. The new procedure set up in the amendment is:

- (a) The number of members of the House of Commons is to be 255.
- (b) The Yukon Territory is given one seat.
- (c) The number of representatives for each province is to be obtained by dividing the total population of the province by 254. This will provide the quota. The population figure for each province is then divided by the quota to find the number of M.P.'s each province is to have.
- (d) Since this arithmetical calculation will probably leave remainders, leaving some of the seats unfilled, those provinces with the largest remainders will be given the unfilled seats.
- (e) No province is to have fewer seats in the Commons than the Senators. This stipulation makes the calculation of the number of representatives for each province a little less straightforward. Prince Edward Island would receive two members according to the procedure in (c) above, but having four senators she must also have at least four members of Parliament. The solution is to assign this province four seats and to distribute the remaining 250 by the process described in (c). The following chart shows the new distribution.

Province	Former Representation	Present Representation
Ontario.....	82	83
Quebec.....	65	73
Nova Scotia.....	12	13
New Brunswick.....	10	10
Prince Edward Island.....	4	4
Manitoba.....	17	16
British Columbia.....	16	18
Saskatchewan.....	21	20
Alberta.....	17	17
Yukon and MacKenzie.....	1	1
Newfoundland.....	0	7
	<hr/> 245	<hr/> 262

The members are elected for a period of five years, although parliament seldom runs the whole term. The term was extended to six years by a special amendment to the British North America Act during World War I. The chief functions and duties of the members of the House of Commons are:

- (a) To speak for the people they represent on all matters that come before the House.
- (b) To give or withhold its approval of legislation. The principle of responsible government is seen at work here. The members of the Commons may at any time withhold their consent to Cabinet measure. If this should happen the Cabinet must resign.
- (c) To supervise the work of the government by asking questions of the Ministers, examining financial statements, orders-in-council, departmental orders, etc.

Recent Changes in the Canadian Constitution

A constitution is a system of laws and customs by which a country is governed. It grows and changes with the times. Where the government is stable as it is in Canada, Britain and the United States, constitutional changes are made with caution. In fact, the private citizen is often irritated by the apparent slowness and the hesitation which marks the movement of the federal government in bringing about what may appear to be changes that are long overdue. But even those citizens who complain about the sluggishness of the federal government would agree that a healthy resistance to change is preferable to hasty amendments that might endanger the stability and unity of the country.

Some constitutional changes are slight and pass unnoticed by the average citizen. Others draw attention to themselves immediately. For instance, in December, 1949, the federal government announced that the official title of our country is just "Canada" and no longer the "Dominion of Canada". This change created some discussion and perhaps some misunderstanding. It is essentially a change in name only. The dropping of the word "Dominion" from the title of our country does not mean that Canada ceases to be a dominion and a partner in

the Commonwealth. While every Canadian is interested in this change in the title of his country, the change has no immediate or far-reaching effects on the conduct of governmental affairs.

Much of the Canadian constitution is contained in the British North America Act of 1867 and the British North America Acts that have been passed by the British parliament since that date. Major alterations in our constitution often, but not always, involve amendments to the BNA Act. Two major changes to our constitution, one not affecting the BNA Act of 1867 and the other necessitating a new BNA Act, were approved by parliament in 1949.

The Supreme Court Act

The first of these adjustments to our constitution was made by a Canadian Statute passed by the Canadian Parliament. It was entitled the Supreme Court Act. This Act abolished appeals in civil matters to the British Privy Council. The Supreme Court of Canada is now supreme in the fullest sense of the word. All disputes concerning the interpretation of Canadian law may be settled by this court. This is an important step in Canada's growth as a nation.

Many Canadians were quite naturally puzzled by the fact that the Canadian parliament could make such an important change in our constitution without requiring an amendment to the BNA Act. The reason that the Canadian parliament could take this step is that the provision in the BNA Act of 1867 which created the Supreme Court also provided for any subsequent amendments of its powers by the Canadian parliament.

The British North America (No. 2) Act, 1949

The second of these adjustments is contained in the British North America (No. 2) Act, 1949, which was passed by the British parliament in December, 1949. It is an amendment to Section 91 of the BNA Act of 1867 in which the legislative powers of the federal government are set forth. This amendment empowers the federal government to amend the constitution of Canada in matters not affecting the provinces, education and the use of the English and French languages. The Act itself reads as follows:

1. "Section 91 of the British North America Act, 1867, is hereby amended by renumbering Class 1 as Class 1A and by inserting therein immediately before that Class the following as Class 1:

1. The amendment from time to time of the Constitution of Canada, except as regards matters coming within the classes of subjects by this Act, assigned exclusively to the Legislatures of the provinces, or as regards rights or privileges by this or any other Constitutional Act granted or secured to the Legislature or the Government of a province, or to any class of persons with respect to schools or as regards the use of the English or French language or as regards the requirement that there shall be a session of the Parliament of Canada at least once each year, and that no House of Commons shall continue for more than five years from the day of the return of the Writs for choosing the House; provided, however, that a House of Commons may in time be continued by the Parlia-

ment of Canada if such continuation is not opposed by the votes of more than one third of the members of such House.

2. This Act may be cited as British North America (No. 2) Act, 1949, and shall be included among the Acts which may be cited as the British North America Acts, 1867 to 1949."

The effect of the 1949 amendment can readily be understood if we bear in mind that the governmental affairs of Canada fall into three groups: (1) purely federal, (2) purely provincial, (3) jointly concerning federal and provincial governments. The BNA Act of 1867 gave the provincial legislatures complete freedom to legislate in matters concerning the provinces but the federal government was bound by the terms of the BNA Act and could not freely amend the constitution of Canada in matters concerning the federal government only. The new BNA Act of 1949 remedies this defect in our constitution.

Speaking in support of this change in the constitution, Mr. St. Laurent, the Prime Minister, made this statement: "I believe we must recognize that either Canada is a sovereign state or she is not. If the former is true, then Canada must act as an adult nation and assume her own responsibilities. I do not think Canadians now wish the Parliament of the United Kingdom to exercise any responsibility for watching over our conduct of Canadian affairs."

Further Changes Under Consideration

For a federal type of government such as we have in Canada the thorniest problems arise in that area of affairs which concern both federal and provincial authorities, the third of the above mentioned groups. At present there is no authority in Canada with power to make amendments to the constitution on matters of common concern to the federal and provincial governments. Mr. St. Laurent has declared that his government would like to remove this last restriction. To this end he laid before a meeting of the provincial premiers his proposals and listened to their suggestions. As a result of this meeting a standing committee of representatives of the federal and provincial governments has been established to examine the constitution as it applies to dominion-provincial relations and if possible to find grounds for agreement on which the constitution might be amended to the satisfaction of all authorities.

Mr. St. Laurent summed up his opinion on this question in a radio speech in these words:

"We have now accomplished everything it is possible for the federal Parliament to do by itself. We shall, in future, be able to settle all Canadian law suits in Canadian courts; and we shall have a limited power to amend our constitution in Canada.

"Whether we can take the final step and establish here in Canada the power to amend our constitution in all respects, will depend upon the goodwill, the co-operation and the statesmanship of provincial governments as well as of the federal government.

"I believe it is the desire of the great majority of Canadians that we may succeed. And I hope that, by the close of 1950, Canada will have assumed all the attributes and all the responsibility of full nationhood."

The Alberta Point of View

Alberta was represented by the Honourable E. C. Manning at the Constitutional Conference of Federal and Provincial Governments. Mr. Manning wisely pointed out the dangers of the wider powers granted to the federal government by the BNA Act of 1949, citing specific instances in which these might be used to modify the power of the provincial governments. In his address to the Conference Mr. Manning expressed the attitude of the Alberta government thus:

"I have already said that in our view not only should provisions be made for amendment to the Constitution to be within this country, but that the Canadian Constitution should become a purely Canadian document as quickly as possible. We should not lose sight of the fact that the people of Canada as a whole have never yet in their history had an opportunity of adopting and ratifying a constitution of their own. We believe a fundamental reason for steps being taken to bring about a proper redrafting of the Canadian Constitution is the obvious need that exists today for clarification of the constitutional responsibilities as between the Dominion Government and the Provinces of Canada.

"I think we would all agree that if it was decided upon to proceed to the goal of redrafting the Constitution, certainly the British North America Act and the other statutes of the United Kingdom Parliament that relate to the constitutional powers of this country obviously would be the basis and framework of that Constitution. But over the years there has grown up an ever-increasing need for greater clarification of the responsibilities in the constitutional field between the dominion and the provincial authorities. It is also our view that there is need—I am not advancing any specific matters at this stage—but we do feel definitely that there is need of a full examination being made into the advisability of changes or modifications in the present allocation of constitutional powers as between the Dominion and the Provincial spheres.

"Certainly, a constitution, to be acceptable to the people, must clearly state what advantages it should accord to the people. Above all else it should be practical. Wherever through experience we find that there are constitutional provisions which render impracticable the proper discharge of responsibilities assigned to the respective spheres of government, then I think surely we would all agree that this situation should be corrected. By way of illustration I refer again to what was mentioned this morning by the Premier of the Province of Quebec, namely, the field of fiscal policy, which is perhaps the outstanding example. I think it will be admitted by all of us that there is little practical value in a right or a constitutional power being assigned to a legislature if the wherewithal to discharge its responsibility under that provision is not also provided along with the responsibility."

Summary of the British North America Acts

1. *The British North America Act, 1867*

The Act which brought about the union of Canada, Nova Scotia and New Brunswick and laid the foundation of the confederation.

2. *The British North America Act, 1871*

An Act to provide for the establishment of new provinces.

3. *The British North America Act, 1886*
An Act to provide representation in the federal government for territory outside the provinces, i.e., the Northwest Territories.
4. *The British North America Act, 1915*
An Act dealing with increases in the number of senators and members of parliament.
5. *The British North America Act, 1940*
An Act to include unemployment insurance amongst the classes of subject to be dealt with by the federal government.
6. *The British North America Act, 1946*
An Act to provide for the readjustment of representation in the House of Commons.
7. *The British North America Act, 1949*
The Act which brought Newfoundland into the confederation.

THE GREAT LAKES-ST. LAWRENCE WATERWAY AND POWER PROJECT

The Present Inland Waterway System

The Great Lakes-St. Lawrence system, extending from the Strait of Belle Isle inland to Fort William, covers a distance of 2,225 miles. From the Atlantic coast it reaches into the heart of Canada to a point nearly halfway between Cape Breton and the Pacific ocean.

This water highway has played a prominent part in the exploration and settlement of Canada. Its potentialities have been developed through the centuries until at present the route is navigable over most of its length for large sized vessels. From the mouth of the Gulf of St. Lawrence there is no serious obstacle to navigation for the 1,000 miles to Montreal. Upstream from Montreal for the next 115 miles navigation is limited by the shallower canals along the north shore of the river.

Through the Thousand Islands Section, the Welland Canal, the connecting channels between Lake Erie and Lake Huron, and between Lake Huron and Lake Superior, there is a channel depth of 25 feet capable of being dredged to 27 feet. A continuous 27-foot navigation route throughout the entire Great Lakes-St. Lawrence System, which would allow the passage of large sized vessels along the whole route, would require the completion of 40 miles of canals, with seven locks and eight movable bridges in the all-Canadian and International Rapids sections, and channel dredging in some sections from the Thousand Islands to the Head of the Lakes.

The Importance of the St. Lawrence Seaway

The St. Lawrence and the Great Lakes are an important factor in the transportation system of Canada and the United States. Some of the largest cities in Canada and the United States are served by this water route. Near the shores of Lakes Erie and Superior are the coal and iron fields of the United States. Chicago on Lake Michigan is the second city in North America and one of the busiest distribution points in the United States. Detroit is the center of the automobile industry on this continent. On the Canadian side there are the great industrial centers of Quebec, Montreal, Toronto, Hamilton, Windsor, Kingston and Sarnia. The necessity of an efficient, low-cost transportation system in a region of such intense industrial activity and bountiful natural resources is readily understandable.

Development of Hydro-Electric Power

From Lake Superior to the Atlantic ocean there is a total drop of more than 600 cubic feet. Lake Superior pours an average volume of 71,000 cubic feet per second into Lake Huron, and the volume of overflow increases through the length of the system until at Lachine, on the outskirts of Montreal, there is an average flow of 262,000 cubic feet per second. If all power developments which now appear practicable were completed, the system could produce about 8,000,000 horsepower of hydro-electric energy for use in Canada and the United States. Only a little more than one-third of the potential hydro-electric power has been developed.

International Negotiations

Although Canada has developed improved navigation channels on the Canadian side of the system (the Welland Canal which bypasses the Niagara Falls is capable of handling the largest ocean going ship that is likely to use this waterway), the completion of the project for the full development of the system is essentially a joint responsibility of Canada and the United States. Negotiations began in 1895 when a Commission of Inquiry was set up by the two countries. Studies and inquiries led to the signing in 1932 of the St. Lawrence Deep Waterway Treaty. The Treaty proposals were turned down by the American Senate. A further agreement was reached in 1941, the Great Lakes-St. Lawrence Basin Agreement.

The 1941 Agreement

The Agreement provides for:

1. The construction of the remaining links in the 27-foot waterway from the head of the Great Lakes to Montreal.
2. A combined power development scheme.
3. The preservation of the scenic value of Niagara Falls.
4. The use of waters which may be diverted into the Great Lakes System for power purposes.

This agreement has not received the approval either of the Canadian parliament or the United States congress.

The project would be a gigantic undertaking, the cost of which was estimated in 1941 to be nearly \$600,000,000, of which Canada's share would be \$264,003,000. The 1954 estimate would probably exceed \$900,000,000. The work involves miles of dredging and excavating and the building of dykes, side canals, locks, docks, bridges, roads and railways.

New York-Ontario Proposal for Power Development

To speed up the development of power in the International Rapids Section the governments of the Province of Ontario and New York State offered to undertake this project at their own expense.

In December, 1951, Parliament approved an agreement with the government of Ontario, concerning the international power development. In October, 1952, the International Joint Commission approved the construction of the key power works. In July, 1953, the Federal Power Commission approved the granting of a license to the Power Authority of the State of New York to develop the United States share of the St. Lawrence power. New York is not yet (summer, 1954) in a position to act under its license because appeals are still pending in the U.S. Supreme Court.

Opposition to the Project

From various quarters arguments are advanced opposing this huge project and government expenditure. It is pointed out that we cannot be certain of any great increases in the use of the waterway or that ocean going vessels are interested in or suited to a long fresh water haul. The railways see the project as serious competition and, naturally, are not anxious to lose any of their business. The short season in which the waterway is ice-free is also cited in its disfavor. Some are convinced that any economy that is achieved by eliminating

the transfer of cargo to smaller ships may be offset by the tolls charged by the government to repay its heavy investment.

Arguments in Support of the Project

Those who support the waterway and power project contend that this greatly improved transportation would result from the passage of larger ships up the Great Lakes. Industrially, the joint development of power and navigation would encourage expansion and development in the area, and, indirectly, throughout a larger part of Canada, and the United States. It is possible, too, that iron ore mined in the recently discovered Quebec-Labrador region might be shipped by this route to Cleveland and other Great Lake ports.

Mr. Dean Acheson, speaking for the United States government, supported the project in these words:

"The construction of the St. Lawrence Seaway and the development of the power potential of the International Rapids section of the St. Lawrence River are both vitally important to the economy and defence of the United States. . . . Canada, like the United States, has an eastern area which is deficient in low-cost power and in which the deficiency is hindering the growth of industry. In Canada lies iron ore which needs to be transported to the steel mills of the United States. The building of the seaway and the development of power are as essential to the economy and defence of Canada as they are to the economy and defence of the United States. And, because those measures which make Canada more prosperous and better able to defend itself add also to the prosperity and security of the United States, so the proposal now under consideration becomes doubly important to the United States.

"Since, therefore, the construction of the seaway and of the power project are of equal importance to Canada and to the United States, and since neither project can be constructed without the joint action of both countries, our action on this measure cannot fail to have an immediate effect on the international relations between the two countries. If we adopt the resolutions, Canada and the United States can go forward together in this joint venture for their mutual benefit, and our already happy relations will be made happier; if we refuse to co-operate, there will be disappointment and justifiable criticism on both sides of the border."

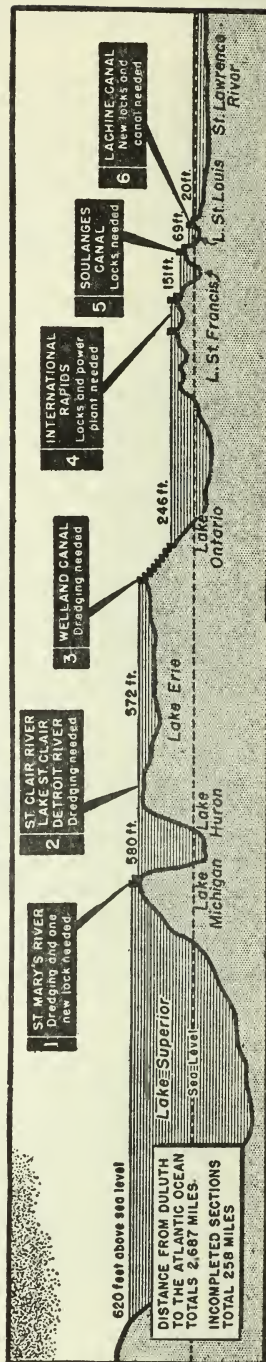
Recent Developments

In 1952, since it seemed unlikely at that time that the 1941 Agreement would be approved by the U.S. Congress, it was rejected by the Canadian Government in favor of a new plan for an all-Canadian seaway. In order to carry out such a plan, some of the canals originally planned for the American side of the river would have to be constructed on the Canadian side. However, on January 20, 1954, the United States senate approved a measure, strongly supported by President Eisenhower, authorizing United States participation with Canada in constructing the seaway. In May, the bill was approved by the house of representatives.

The United States government is now in a position to make firm proposals for joint construction of the seaway. Canada is committed

to consider any such proposals provided that they do not alter the present plans for hydro-electric power development, and that they do not unduly delay the building of the seaway.

By matching the numbers on this map with the ones on the drawing below, you can see the improvements that are suggested.



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